

LIBRARY
SUPREME COURT. U. S.

IN THE

Supreme Court of the United States

FILED

APR 9 1968

JOHN S. ADKINS, CLERK

October Term, 1968

No. ~~_____~~

56

LEAR, INCORPORATED,

Petitioner,

vs.

JOHN S. ADKINS,

Respondent.

VOLUME II.

Appendix to Petition for Writ of Certiorari to the
Supreme Court of ~~_____~~
California.

C. RUSSELL HALE,
EDWIN L. HARTZ,

201 South Lake Avenue,
Pasadena, California 91101,

THOMAS G. CORCORAN,
ALLEN E. THROOP,

1120 Investment Building,
Washington, D.C. 20005,

Attorneys for Petitioner.

CORCORAN, FOLEY, YOUNGMAN & ROWE,

1120 Investment Building,
Washington, D.C. 20005,

CHRISTIE, PARKER & HALE,

201 South Lake Avenue,
Pasadena, California 91101,

Of Counsel.



INDEX TO APPENDICES

	Page
Appendix A	1
Opinion of California Supreme Court	1
Order Denying Rehearing	52
Remittitur Issuance and Filing	52
Stay of Enforcement	53
Opinion of the District Court of Appeal	54
Modification of Opinion	92
Judgment on Verdict in Open Court	92
Rulings on Motions for Judgment Notwithstanding the Verdict and, in the Alternative, for a New Trial	94
Ruling on Motion for a New Trial	103
Judgment for Defendant Notwithstanding the Verdict	104
Amendment to Judgment	105
Opinion of Ninth Circuit Court of Appeals	106
Appendix B	121
Provisions of the Constitution of the United States	121
Article 1, Sec. 8, Clause 8	121
Statutory Provisions	121
Title 35 of the United States Code	121
Sec. 101	121
Sec. 102(a)	121
Sec. 102(b)	121
Sec. 103	122
Sec. 115	122

	Page
Sec. 132	123
Sec. 154	123
Sec. 282	123
Title 28 of the United States Code	124
Sec. 1498	124
Title 15 of the United States Code	125
Sec. 1	125
Appendix C	126
Agreement	126
Letter of September 10, 1957	148
Letter of April 8, 1959	150
Letter of April 20, 1959	151
Appendix D	152
Excerpts From the Briefs on Appeal to Both the District Court of Appeal and to the Cali- fornia Supreme Court and the Petition for Rehearing Before the California Supreme Court Showing How the Federal Questions Were Raised and Preserved	152
1. Excerpts from:	
Opening Brief for Lear Concerning the Directed Verdict and the Denial of Lear's Motion for Judgment Notwithstanding the Verdict, All with Respect to the 2156 Gyroscope	152
2. Excerpts from:	
Reply Brief for Lear, Incorporated Con- cerning the Directed Verdict and the De- nial of Lear's Motion for Judgment Not- withstanding the Verdict, All with Re- spect to the 2156 Gyroscope	166

3.	Excerpts from:	Page
	Respondent's and Cross-Appellant's Opening Brief on Appeal Instituted by Plaintiff from the Judgment for Defendant Notwithstanding the Verdict and from the Order Granting a New Trial in the Alternative and on Cross-Appeal Instituted by Defendant from the Judgment Entered May 4, 1964, and Amended Judgment Entered December 30, 1964	176
4.	Excerpts from:	
	Petition for Rehearing in the California Supreme Court	189

APPENDIX A.

Opinion of California Supreme Court.

In the Supreme Court of the State of California, in Bank.

John S. Adkins, Plaintiff and Appellant, v. Lear, Incorporated, Defendant and Appellant. L.A. 29204, 29205, 29206, 29207 (Consolidated Appeals).

Filed, Dec. 14, 1967.

John S. Adkins, an inventor and mechanical engineer, was engaged in the development and improvement of gyroscopes¹ for Lear, Incorporated, a manufacturer of gyroscopes and related mechanisms. Adkins brought this action against Lear, alleging in his first cause of action that prior to 1955 he had conceived certain inventions and made them available to Lear and that on September 15, 1955, he entered into a written agreement with Lear under the terms of which he granted Lear a license to use these inventions in products manufactured by it, in exchange for which Lear was to pay a stated percentage of the net sales price to Adkins as royalties on all products incorporating his inventions. It was averred that from September 10, 1957 onward, Lear had refused to pay royalties to Adkins on numerous products which it manufactured and sold and for which royalties were required to be paid under the license agreement.

The jury found in favor of Adkins and awarded him damages in the amount of \$904,474.49 for the period from January 1, 1955, to May 31, 1963.² A portion

¹Hereinafter sometimes referred to as gyros.

²The parties stipulated that this was the period of time involved for the purpose of determining the amount of damages.

of this amount (\$16,351.93) was based on a verdict directed by the trial court as to a product manufactured by Lear and designated as the 2156 gyro. A judgment on the jury's verdict was entered on May 4, 1964. Thereafter, Lear moved for judgment notwithstanding the verdict or, in the alternative, a new trial. (Code Civ. Proc., § 629.)³ The trial court granted the motion for judgment notwithstanding the verdict, except as to the 2156 gyro, and it granted the motion for a new trial in the alternative as to all products involved in the action. Multiple appeals have been taken; that which involves the primary matters at issue between the parties, numbered L.A. 29204, will be discussed first.⁴

L.A. 29204

The license agreement contained two provisions permitting its termination by Lear, and Lear purported to exercise its right to terminate under these provisions by a letter addressed to Adkins dated April 8, 1959. Reduced to its simplest terms, the fundamental questions

³The alternative form of motion was abolished by amendment of section 629 before the trial of the present case commenced in 1964. (Stats. 1961, ch. 604, p. 1752.) However, the provisions of the section with respect to the review of judgments notwithstanding the verdict and orders for a new trial remained substantially the same, with the exception that the denial of a motion for judgment notwithstanding the verdict was made reviewable on appeal as a matter of right where the motion for a new trial was granted.

⁴This discussion involves: (1) Adkins' appeal from the judgment notwithstanding the verdict insofar as it was favorable to Lear and from the order granting the motion for a new trial; (2) Lear's appeal from the judgment on the directed verdict as to the 2156 gyro and from the court's denial of its motion for judgment notwithstanding the verdict as to that product; and (3) Lear's appeal from the whole of the judgment entered on May 4, 1964, on the jury's verdict in favor of Adkins.

we are called upon to decide are whether the agreement was validly terminated by Lear and (except as to the 2156 gyro) whether there is substantial evidence in support of Lear's claim that its products did not incorporate Adkins' invention. We determine that under a proper construction of the agreement Lear did not effect a valid termination and that not only is there no substantial evidence to support a determination that Lear did not use Adkins' invention in its products but that the record compels the conclusion that Lear did incorporate Adkins' invention in the instruments manufactured by it. The 2156 gyro will be discussed separately.

Before setting forth the facts, it may be helpful to summarize some fundamental principles and procedures relating to the instant case. The federal courts have exclusive jurisdiction over actions arising under patent laws. (28 U.S.C.A. § 1338) but where a plaintiff seeks to enforce a patent licensing agreement the action "is not a suit under the patent laws of the United States and cannot be maintained in a federal court as such." (Lockett v. Delpark (1926) 270 U.S. 496, 502, 510; Farmland Irrigation Co. v. Dopplmaier (1957) 48 Cal.2d 208, 217.)⁵ Where such an action arises in a state court, the court may pass upon the meaning, scope, validity or infringement of the patent. (Lear, Siegler, Inc. v. Adkins (9th Cir. 1964) 330 F.2d 595, 600.)

⁵After the present suit was filed by Adkins but before the trial was held, Lear filed an action for declaratory relief in the United States District Court for the Southern District of California, alleging that Adkins' patent was invalid and that in any event the gyros manufactured by it did not infringe the patent. The federal court granted a stay until final adjudication of the present action. (Lear Siegler, Inc. v. Adkins (9th Cir. 1964) 330 F.2d 595.)

A patent is, of course, presumed to be valid until the presumption has been overcome by convincing evidence.⁶ Ordinarily, a party will attempt to demonstrate the invalidity of a patent by showing that it has been anticipated by the prior art or that it is obvious or without utility. However, one of the oldest doctrines in the field of patent law establishes that so long as a licensee is operating under a license agreement he is estopped to deny the validity of his licensor's patent in a suit for royalties under the agreement. The theory underlying this doctrine is that a licensee should not be permitted to enjoy the benefit afforded by the agreement while simultaneously urging that the patent which forms the basis of the agreement is void. (See 4 Walker on Patents (Deller 2d ed. 1965) p. 607.) This doctrine does not prevent one who is not a licensee from challenging the patent's validity.

The license agreement in the present case was, insofar as is relevant here, based not on an existing patent issued to Adkins but on his application for a patent which the parties believed would eventuate in the issuance of a patent.

A patent application generally consists of a drawing of the invention, the specifications, and the claims.⁷ The specifications are a description of the invention, the manner in which it is constructed, and the objects it is intended to achieve. They ordinarily include an introductory clause identifying the field in which the inven-

⁶The principles of patent law summarized here may, unless otherwise noted, be found in Toulmin, Handbook of Patents (2d ed. 1954) chs. III, IV, V.

⁷There are additional formal requirements such as the oath of the inventor; a drawing is not required in every case.

tion is made, a recitation of the advantages of the invention and the state of the prior art, a brief description of the drawings and its parts, and, in the case of a machine, the manner in which it operates.

The claims follow the specifications. The claims must point out the subject matter which the applicant regards as his invention, and they are "the real measure of the invention." The drafting of claims is a highly specialized and difficult undertaking. The practice is to include both very broad claims and claims of a more restricted type. Frequently, an applicant will state his claims as broadly as is feasible in order to obtain as wide a monopoly as he can, gradually narrowing them to precisely describe his invention as the broader claims are rejected. (See 2 Walker on Patents (Deller ed. 1937) p. 770.) The subject matter of the claims may describe a machine or apparatus designed to perform some function, sometimes called an "apparatus claim," or a method or process of achieving a particular result independent of the machine which produces it, sometimes called a "method claim."

The prosecution of the application before the United States Patent Office will, except in very unusual cases, consist of at least one rejection of some or all of the claims of the application on the ground that a search has indicated they have been anticipated by prior inventions, and the subsequent amendment of the claims or specifications by the inventor. (See Seidel, What the General Practitioner Should Know About Patent Law and Practice (1956) A.L.I. p. 60.) He may then file an amendment which will alter the prior claims, cancel them, or add new claims. However, he may not enlarge the disclosure of the application as initially filed by add-

ing new matter in an amendment. (35 U.S.C.A. § 132.) The issuance of a patent necessarily means that the Patent Office did not consider the amendment to constitute new matter in violation of the patent laws, and its determination in this regard is entitled to special weight. (Helm Products v. Lake Shore Manufacturing Co. (7th Cir. 1955) 227 F.2d 677, 679.) The process of rejection and amendment continues until either allowance or final rejection of the claims. A rejection is presumably designated as final if the examiner concludes that there is little likelihood that the application can be amended in such a manner that the issuance of a patent would be justified. This procedure of rejection and amendment is so commonplace that one authority has stated that most patent attorneys view with some misgivings those rare instances in which an application is allowed without amendment because it raises the possibility that the applicant has failed to state his claims as broadly as he could have and that a still broader claim might have been allowed, defining the invention (and thus the protection afforded by the patent) in a manner broader and more advantageous to the applicant. (Seidel, *op.cit.* supra, p. 48.)

An application may not claim more than one distinct invention, and a patent may be issued for one invention only. If the examiner at the Patent Office discovers that more than one invention is disclosed by an application he will require a "division," i.e., the applicant must limit his claims in the application to only one of the inventions but may file a separate application for each of the other inventions disclosed by the original application. It also happens that, after filing an application, the inventor may discover improvements which involve

additional subject matter over the original disclosure and which cannot be added by amendment because they constitute new matter. He may then file another application, called a "continuation application" in which he may claim both the disclosure of the original application and the new improvements.

If the applicant is satisfied with the claims which have been allowed he may cancel those which have been finally rejected. If he is dissatisfied with the final rejection he may take an appeal to the Board of Appeals or, in certain limited circumstances, may attempt another amendment. (37 C.F.R. § 1.116.) At the time of the prosecution of the application involved in the present case, the average patent application had a pendency of somewhat over three years and was acted upon by the Patent Office from two to four times. (Seidel, *op.cit. supra*, p. 61.)

On December 29, 1951, Adkins and Lear entered into an agreement providing that Adkins would supervise the fabrication of vertical gyroscopes for Lear, that all new discoveries, ideas and inventions relating to such gyroscopes would become the property of Adkins, and that he would license Lear to manufacture the instruments on a mutually satisfactory royalty basis. The agreement also provided that the physical instruments fabricated would be the property of Lear.⁸ A few days later, Adkins commenced employment with Lear in its Santa Monica plant and began to conduct various experiments aimed at improving the accuracy and lowering the cost of manufacturing these instruments.

⁸The 1951 agreement was attached to and made a part of the complaint.

Gyroscopes are used in aircraft to indicate to the pilot the direction and attitude of the airplane. A vertical gyro indicates the pitch and roll of the aircraft and a directional gyro indicates the aircraft's direction. The gyro seeks to maintain its fixed position in space, and the movements of the aircraft are measured electronically by the gyro and recorded on gauges. The essential, unique element of a gyro is a rotor, a heavy disc, which, when it is electrically driven at high speed, seeks to maintain its attitude in space.

In all cases the rotor is suspended by its axis, the ends of which are mounted in a ring, known as a gimbal. On some occasions the gimbal ring is itself suspended in a second ring, in which event the rings are known as the inner and outer gimbal rings and axes. The entire structure is mounted through the outer gimbal ring in a frame fixed to the aircraft or other craft served by the gyro. Each gimbal ring is provided with two short pins or axle ends called trunnions, which project outward from the circumference of the ring directly opposite each other. They lie on a common axis and are inserted into a bearing element which, in the case of the inner gimbal, is fixed to the inner circumference of the outer gimbal ring and, in the case of the outer gimbal, to a supporting frame. There is, accordingly, one pair of bearings in the outer gimbal for the inner gimbal, and one pair of bearings in the frame for the outer gimbal. The bearings are of the ball-bearing type, each consisting of an inner and outer race or ring with a number of balls between the two rings.

Among the most important factors in achieving accuracy in a gyro is alignment on the same axis of the

pair of trunnions on the opposite sides of the gimbal, and the alignment in parallel planes of the faces of the bearing elements. Accuracy in these coaxial and parallel alignments reduces friction and the exertion of undesirable forces which cause the gyro rotor to drift from its desired stable position in space, which in turn results in inaccurate recordations. In all gyros here in issue, the bearings are fixed in place, either directly to the next outer gimbal or frame, or to intermediate bearing cups affixed to the outer gimbal or frame.

Adkins' invention and the original claims related thereto involved both a mechanism or apparatus which fixed and held each pair of bearings in coaxial and parallel alignment, as explained above, and a method by which pairs of bearings could be positioned in coaxial and parallel alignment. In subsequent amendments the method claims were eliminated. When Adkins was first employed by Lear its practice was to bore; tap and ream a pair of coaxial holes directly opposite each other on the gimbal ring or frame which supports the outer ring. The bearings were then fitted into the seats formed by these holes. In order that alignment within acceptable tolerances could be achieved by this method, precision work by skilled machinists was required and there was a high incidence of rejects.

Adkins' apparatus for alignment, in its simplest form, consists of a pair of bearing cups mounted in oppositely placed receiving holes in the gimbal by use of a mandrel. A mandrel, in this instance, is a finely tooled rod or shaft, and is used by Adkins only as an assembly tool. Its cylindrical circumference is such that a bearing cup will fit snugly over each end of the mandrel. The mandrel, with cups firmly in place, is

then inserted within the gimbal. In this instance the gimbal is not a ring but a hollow sphere which is made in two halves, capable of being joined to form the sphere. There is a receiving hole, designed to receive a bearing cup at the bell top of each half sphere. The mandrel, with cups fitted, is first inserted within a half sphere by placing a cupped end of the mandrel into the receiving hole. The other half sphere is then placed over the assembly, so that the opposite cupped end of the mandrel fits into the receiving hole in that half sphere. The mandrel is of such length that when the half spheres are joined the cups project into the receiving holes. These holes are oversize, that is, the cups do not fit snugly into the holes but are allowed to freely position themselves. When the gimbal sphere is in the assembled position, the cups are cemented into the precise position as aligned by the mandrel. As the mandrel is machined to the precise dimensions of the rotor shaft or trunnions of the inner gimbal, as the case may be, the cups will receive the shaft or trunnions in what Adkins claims to be greatly improved alignment. Moreover, aside from the mandrel, which is a reusable tool, and the inner surfaces of the cups which are machined to receive the pair of bearings, no precision machine work is required and production costs are thus substantially reduced. After the cups have been firmly fixed in place, the sphere is disassembled, the mandrel removed, the rotor or inner gimbal is installed, and the sphere reassembled.

At the same time that Adkins was engaged in developing his invention, Lear was experimenting in its Grand Rapids, Michigan, plant with a number of other devices to achieve gyro accuracy. Lear claims that it

developed the devices used in its models 2151, 2152, 2153 and 2171 independently of Adkins and that these models do not incorporate any of Adkins' inventions. Adkins disagrees. These models will hereafter be collectively referred to as the "steel gyros"⁹ and will be discussed more fully in the portion of this opinion devoted to the question whether Lear utilized Adkins' invention in its products.

On February 24, 1954, Adkins filed an application for a patent in the United States Patent Office relating to his invention. It contained, *inter alia*, several claims relating to bearing alignment. Claims 7 and 8 related to a *method* of aligning bearings, and Claim 9 was denominated an alignable bearing structure for supporting an element movable with respect to another element. These claims were rejected by the Patent Office on September 8, 1954, as being fully met by a previous patent issued to one Carlson. Thereafter, on March 7, 1955, Adkins filed Amendment A to his application. This amendment canceled Claims 7 and 8 and replaced them with Claims 18 and 19, which also related to a method of bearing alignment. Three words were added to Claim 9.

This was the condition of the application when the license agreement was executed on September 15, 1955. Several years of negotiation preceded the consummation of this agreement, and the parties were represented by counsel in these negotiations.

⁹The parties disagree as to the correct terminology applicable to this group of products. Lear claims they should have been designated as "Michigan gyros" because they were developed by it at the Michigan plant. Since the agreement refers to these models as steel gyros and this appears to be the more neutral term, we shall adopt this designation.

The license agreement expressly provided that it superseded and canceled all prior agreements between the parties, including the one executed on December 29, 1951. Adkins represented in the agreement that he was the owner of the inventions disclosed or intended to be disclosed in the application, which was attached and referred to as Exhibit B. He granted to Lear an exclusive license "under all the claims of . . . Exhibit 'B' . . . and any patents issued . . . thereon." The definition of the word "claims" was limited to those claims which were patented or patentable. Consideration in the amount of \$500 was acknowledged, and it was provided further that while the licenses were in effect a stated royalty would be paid on products incorporating Adkins' inventions and that, in any event, a minimum of \$500 a year would be payable as royalties.¹⁰

Two provisions permitted Lear to terminate the agreement. One was contained in paragraph 2(a) and provided: "Lear shall have the right on ninety days' prior written notice to Adkins, to terminate any one or more of the licenses herein granted." The other, set forth in paragraph 6 of the agreement, stated, "In the event that . . . the U. S. Patent Office refuses to issue a patent on the substantial claims of the application attached as Exhibit 'B', or if such a patent so issued is subsequently held invalid . . . Lear at its option shall have the right forthwith to terminate the specific license so affected or to terminate this entire Agreement and no further royalties shall thereupon be payable under the license so terminated or under this Agreement if Lear shall have elected to terminate this Agreement in its entirety."

¹⁰The agreement also provided that Lear would reimburse Adkins for \$540 in patent costs already incurred by him and would pay future costs for the prosecution of the application.

On March 21, 1957, the Patent Office rejected Claims 9, 18 and 19 on the ground that they had been fully met by a patent granted to one Grenat. Before Adkins filed any amendment in an attempt to meet this objection, Lear wrote him on September 10, 1957, that it had reviewed his patent application and concluded it did not disclose any inventions utilized in any Lear equipment except the 2156 gyro and certain components thereof, that the steel gyros manufactured by it did not come within the scope of the application, and that Lear had made a search of the Patent Office files and believed the method of bearing alignment used in assembling the steel gyros was not patentable. Lear also informed Adkins that it would no longer pay royalties on the steel gyros but would continue to do so on the 2156 gyro. Adkins protested this action and on February 1, 1957, he resigned from Lear's employ because of its refusal to continue the payment of royalties on the steel gyros.

Thereafter, Adkins again amended Claims 9, 18 and 19 in an attempt to meet the objections of the Patent Office relating to the Grenat patent. These claims were also disallowed and, after another amendment of the application but before any action by the Patent Office on the amendment, Lear wrote Adkins on April 8, 1959, that it was exercising its right to terminate the license agreement under paragraphs 2(a) and 6. Royalty payments on the 2156 gyro were also discontinued. Subsequently, Adkins canceled the claims in his application going to a *method* of aligning bearings and substituted therefor a series of claims referring to an *apparatus* for support bearings.¹¹ These apparatus claims

¹¹The history of the prosecution of the patent application
(This footnote is continued on the next page)

were allowed by the Patent Office and letters patent issued thereon on January 5, 1960. On the same date, Adkins filed the present action. Lear stipulated that it manufactured and sold the gyros in issue both before and after its letter of termination of April 8, 1959.

In summary, a history of the prosecution of Adkins' patent application, after the license agreement was executed, reveals that Lear refused to pay royalties on the steel gyros after one rejection of Adkins' claims by the Patent Office, and it notified Adkins that the agreement was terminated after a second rejection at a time when the claims still involved a method of aligning bearings.

The trial of the action occupied many weeks, and voluminous testimony was introduced by both parties. The trial court held that as a matter of law Lear had terminated the license agreement insofar as the steel gyros were concerned.¹² Adkins had urged at the trial

shows the following: On September 23, 1957, Adkins filed Amendment B, amending Claims 9, 18 and 19, but only in minor respects, for the purpose of avoiding the bar of the Grenat patent. In a supplemental amendment before Patent Office action (Amendment C), he added Claims 22 through 27, which related to an alignable bearing structure. These claims were rejected on June 20, 1958, the first group as still not meeting the objections relating to the Grenat patent and the second as being anticipated by a patent to Sperry. On December 22, 1958, Adkins filed Amendment D, this time adding some material to the specifications, amending Claim 9, and substituting for Claims 18 and 19, claims 27 and 28, the latter two claims still relating to a method for aligning bearings. The April 8, 1959, letter of termination was sent prior to any action by the Patent Office on this amendment. A few weeks later Adkins canceled the method claims and by Amendment E substituted the apparatus claims on which he was finally granted a patent.

¹²Lear insists that Adkins conceded at the trial that the license agreement had been terminated as a matter of law. There is no merit in this contention. Lear relies on certain statements made by Adkins' attorney to the trial court in chambers and on the fact that Adkins submitted an instruction, given by the trial

that even if the agreement was terminated Lear would be liable for damages under the theory of unjust enrichment set forth in *Seagren v. Smith* (1944) 63 Cal.App.2d 733.¹³ The court submitted to the jury for determination whether, as to the steel gyros, Adkins' patent was valid and whether Lear used the invention. The jury deliberated for eight days, and its verdict in favor of Adkins implied that it had determined both that the patent was valid and that Lear had utilized Adkins' invention in its products. Lear's motion for judgment notwithstanding the verdict and for a new trial in the alternative was based on numerous grounds, including the asserted invalidity of the patent and non-coverage.

The trial court, in granting the motion for judgment notwithstanding the verdict as to the steel gyros, wrote an opinion in which it held that Adkins' patent was invalid as a matter of law. The court analyzed Adkins' invention and the steel gyros manufactured by Lear and compared them with the prior art. The holding of invalidity was based on the ground that Adkins' de-

court, stating that Lear had terminated the agreement by its letter of April 8, 1959. However, a reading of the record indicates that Adkins took the position early in the trial that the April 8 letter did not effect a valid termination and that it was only after the trial court had ruled as a matter of law that the agreement had been terminated that Adkins, in discussions with the trial judge, assumed this to be the case. The instruction stating that the agreement had been terminated was proposed by Adkins only as an alternative in the event the court refused to give another instruction requested by him stating that the letter of April 8, 1959, was wholly ineffective to terminate the agreement.

¹³In the *Seagren* case it was held that although a licensing agreement was canceled by the licensee, the latter was nevertheless liable for the payment of royalties thereafter upon the theory of an implied contract, based on the principle that a person shall not be permitted to enrich himself unjustly at the expense of another.

vice did not constitute an invention but was merely an aggregation of old parts and elements performing no new or different function. Although the court purported to do so, it did not decide whether Lear utilized Adkins' device.¹⁴ The motion for new trial was granted on the grounds of irregularity of the proceedings, excessive damages, errors of law occurring at the trial, insufficiency of the evidence to justify the verdict, and that it was against the law. (See Code Civ. Proc., § 657.)

Under the doctrine of licensee estoppel, Lear would be prohibited from challenging the validity of Adkins' patent if the agreement had not been validly terminated. Where a license agreement specifies the conditions under which termination may occur, those conditions must be satisfied in order to effect a valid termination. (Thomson Spot Welder Co. v. Oldberg Mfg. Co. (Mich. 1932) 240 N.W. 93, 94; see Ellis, Patent Licenses (3d ed. 1958) pp. 365-366; 69 C.J.S. p. 785.) Here, the contract provided that it would continue in force until the patent relating to the subject matter of the agreement expired, unless sooner terminated pursuant to its provisions.¹⁵ We must, therefore, turn our attention to

¹⁴After holding Adkins patent invalid the court stated that it was desirable to dispose of the question of infringement by Lear. However, the opinion merely states that the device utilized by Lear in its steel gyros was not patentable and, therefore, that Adkins could not claim it as infringing his patent.

¹⁵Lear relies on authorities holding that a licensee may terminate a license agreement upon notice to his licensor even though, prior to termination, there has been no adjudication of invalidity of the patent which is the subject of the agreement and that thereafter the licensee may challenge the validity of the patent. (See, e.g., The Armstrong Co. v. Shell Co. of Cal. (1929) 93 Cal.App. 769, 778-779.) This rule has no application if the agreement sets forth the particular circumstances under which termination must occur. As stated above, such provisions must be complied with in order to effect a valid cancellation.

the question whether Lear effected a termination of the license agreement.

We will consider first the question whether Lear validly terminated the agreement under paragraph 6.

As we have seen, paragraph 6 provided that Lear could terminate the agreement in the event the Patent Office refused to issue a patent on the substantial claims of the application (Exhibit B).¹⁶ The crux of Lear's argument is that Adkins was required to obtain a valid patent based on method claims and that the agreement related only to those claims set forth in the application at the time the contract was entered into, or their substantial equivalents. Lear also contends that section 6 did not require final action by the Patent Office in rejecting Adkins' application before the right to terminate arose and that it was justified in terminating the agreement on April 8, 1959, because the Patent Office had refused by its rejections of March 21, 1957, and June 20, 1958, to allow Adkins' claims relating to bearings.

The rebuttal to these contentions is contained in the provisions of the agreement, which neither party asserts is ambiguous. An examination of those provisions demonstrates Lear incorrectly asserts that the li-

¹⁶This provision also permitted Lear to terminate the agreement under certain conditions subsequent to the issuance of a patent. Thus Lear was given the power to cancel the agreement if a patent which issued on the claims of the application was subsequently held invalid. Obviously, any power of termination Lear may have had under such a provision could not be exercised until after the issuance of the patent. It may be noted in this connection that it has been held under a similar provision that the licensee itself could not challenge the validity of the patent in a suit for royalties under the agreement. (*United States v. Harvey Steel Co.* (1905) 196 U.S. 310, 316.)

cense which was the subject of the agreement related solely to method claims contained in the application at the time the agreement was executed. Indeed, the parties could hardly have defined the scope of the license in a broader manner. It was to cover not only patented or patentable claims disclosed or intended to be disclosed by the application attached as Exhibit B to the agreement but also such claims in other applications filed for different but related inventions revealed by the exhibit.

Nowhere in the agreement was there a restriction as to the type of claims (i.e., apparatus or method claims) to which the license was to apply, nor any implication that the coverage of the agreement was to be restricted to claims in the application at the time of the agreement. Under section 2(a) Adkins granted to Lear an exclusive license under all the patented or patentable claims of Exhibit B and "any patents hereafter issued thereon" to manufacture and sell products containing his inventions. The term "claims" was defined as those claims which were patented or patentable. Paragraph 3(a) provided that royalties were to be paid on products incorporating Adkins' "inventions" and that term was defined (par. 1(d)) as "all claims . . . disclosed or intended to be disclosed" in Exhibit B "but only to the extent that such claims . . . are patented or patentable" by Adkins.¹⁷

¹⁷Lear states that the license extended only to *validly* patented claims. However, the provisions of the agreement setting forth the scope of the license do not so state. The validity of the patent was adverted to in the agreement only in connection with the right to terminate if the patent "was subsequently held invalid." As pointed out in footnote 16, *ante*, the quoted words constitute a condition subsequent which could not be exercised by Lear until after a patent had been issued.

Thus it appears that Adkins granted Lear a license on all patented or patentable claims of Exhibit B and the claims of any patents issuing thereon, and Lear agreed to pay royalties on all products incorporating patented or patentable inventions disclosed or intended to be disclosed by Exhibit B, which is defined in paragraph 1(b) as follows: "The phrase Exhibit 'B' as used in this Agreement shall be deemed to refer to and include the application for United States Letters Patent filed on February 15, 1954, attached hereto, and all continuations and divisions thereof, and all patents issued or issuing thereon to Adkins with respect to the inventions disclosed or intended to be disclosed therein and all improvements thereof, and all renewals, extensions, reissues of any patents issued pursuant thereto."

It clearly appears from the provisions quoted above that the parties intended to license not only those claims eventuating in a patent which were set forth in the application at the time of the agreement, but also any claims intended to be disclosed in the application, without any restriction as to the type of claims allowed.¹⁸ The license extended even to related inventions disclosed by the application or improvements of a disclosed invention for which a divisional or continuation application would be required and which would eventuate in a patent. Lear's obligation to pay royalties was, of course, based on the use of such inventions in its products.

The unimportance of particular application claims at the time the agreement was consummated is indicated

¹⁸As noted above, Adkins could not, under the patent laws, amend his application to substitute claims describing an invention entirely different from that described in the original application.

by the fact that Exhibit B did not constitute a copy of the application as it then existed in the Patent Office but contained claims which, with the knowledge of both parties, had already been rejected. The application was, as we have seen, filed on February 15, 1954, and the claims going to a method of bearing alignment as well as Claim 9 had been rejected on September 8, 1954. Amendment A, also relating to a method of bearing alignment, was filed on March 7, 1955. Both parties were aware of this but nevertheless Exhibit B did not include Amendment A and indicated the claims in the form in which they had appeared in the original application.

Lear knew that the method claims in the original application had been rejected prior to the execution of the license agreement, yet the terms of the contract not only failed to restrict the license to method claims or to claims in the application at the time the contract was signed but defined the scope of the license in an extremely broad manner. Under these circumstances, Lear's contention that it bargained only for a license of claims relating to a method of aligning bearings cannot be sustained.

Moreover, there is nothing in the contract to indicate that Lear could unilaterally anticipate Patent Office action and determine, prior to final action by that agency, that Adkins could not obtain a patent on the invention disclosed or intended to be disclosed by the application. Section 6 provided that Lear could terminate the agreement in the event the Patent Office *refused* to issue a patent on the substantial claims of Exhibit B. There was no way to determine in advance of final action whether a refusal would eventuate or whether

Adkins would receive a patent. Neither of the rejections of the Patent Office prior to Lear's termination of the agreement were denominated final rejections. Lear had the advice of counsel experienced in patent matters in negotiating the agreement, and it must have known that the prosecution of an application consists of the rejection and amendment of the claims of the application and that this procedure is time-consuming. Nevertheless, it unilaterally determined after the first rejection of the claims subsequent to the agreement that it would no longer pay royalties on the steel gyros and, after a second rejection, it terminated the agreement altogether on the ground, *inter alia*, that the Patent Office had refused to issue a patent on the substantial claims of the application. There is not the slightest indication in the agreement that the parties were concerned with intermediate actions of the Patent Office in rejecting particular types of claims, and it cannot be said that there was a refusal to grant a patent as to the claims of Exhibit B, as defined in the agreement, on the basis of these intermediate rulings.¹⁹

Lear relies on *Marvin v. Mills Alloys, Inc.* (1939) 31 Cal.App.2d 549, in support of its contention that it could unilaterally determine prior to final Patent Office action that Adkins would not obtain a patent. There,

¹⁹Another contention made by Lear is that Adkins improperly added new matter to his application in an amendment to the specifications filed on December 22, 1958. It is argued that by this amendment Adkins changed his invention to something entirely different than was contemplated by the parties when they entered into the license agreement. In view of the conclusion reached above, that the parties intended to license any patent which issued on the basis of Adkins' application (subject to certain conditions subsequent to the issuance of the patent giving Lear the right to effect a termination), we need not discuss the substance of this contention in reaching a conclusion on the issue of termination.

the agreement provided that the plaintiff granted to the defendant a license to use a described invention. The invention was a one-element device which the agreement stated had been manufactured by the defendant previously. It was also provided that the plaintiff would file an application for a patent on that device and that if he was finally unsuccessful in obtaining a patent for it, royalty payments would cease. The plaintiff filed an application in accordance with the agreement, but the application was denied on the ground that patents had been obtained on the same invention by another. The defendant refused to pay further royalties. Thereafter, the plaintiff obtained a patent for a three-element invention, which included the single-element device the defendant was manufacturing. It does not appear whether the application upon which the patent was issued was the same one as originally filed.

The court held that the three-element device of the patent was different from the device manufactured by the defendant, that the plaintiff was unable to secure a patent on his original invention, which was the subject matter of the agreement, and that, therefore, the defendant was not liable for payment of royalties for manufacturing the original invention.

The differences between *Marvin* and the instant case are obvious. The question decided there was whether the plaintiff obtained a patent on the same device as was specifically referred to in the agreement. Here, the agreement related to any patented or patentable invention disclosed or intended to be disclosed by the claims of the application, not to a particular device described. There is dictum in *Marvin*, not necessary to the decision, that when the Patent Office denied

the plaintiff's application "no patent could be obtained by him except upon a different invention." In view of the normal procedures followed in patent applications, we disapprove this language insofar as it implies that a single rejection of an application by the Patent Office constitutes a final determination that no patent may be issued on an invention disclosed in an application.

The next question to be determined is whether the license agreement was validly terminated under paragraph 2(a).

Lear had the right, under paragraph 2(a) to cancel the license upon 90 days' written notice to Adkins. Lear maintains that this provision granted it an absolute right to cancel the agreement at any time without discontinuing the use of Adkins' invention, while Adkins asserts that when the license agreement is viewed as a whole it shows that Lear could not exercise its right to terminate unless it also stopped utilizing his invention.

Lear urges that we should not require the cessation of manufacture as a condition precedent to 2(a) termination because another provision of the agreement (paragraph 3(g)) indicates that the parties had cessation of manufacturing in mind when they entered into the agreement, and if they expressed such a condition precedent as to one contingency they would have, if they so intended, expressed it as a condition to 2(a) termination as well. Paragraph 3(g) provided that Lear must pay Adkins minimum royalties of \$500 a year from January 1, 1957 onward so long as the license was still in effect (e.g., whether or not Lear used

Adkins' invention) and that if Lear failed to pay minimum royalties Adkins could cancel the agreement and thereafter Lear would be prohibited from using the invention. A number of cases are cited in support of Lear's argument and, while their holdings favor Lear, they make clear that the ultimate consideration in determining whether to imply a covenant in an agreement is the intention of the parties as shown by the contract construed as a whole.²⁰

A covenant may be implied where it is indispensable to effectuate the intention of the parties, where it is clear from the language used that the provision was so clearly within their contemplation that the parties deemed it unnecessary to express it, where it would have been inserted into the contract if attention had been called to it, and where the subject is not completely covered by the contract. (*Lippman v. Sears, Roebuck & Co.* (1955) 44 Cal.2d 136, 142.) There seems little doubt that when the contract here in issue is viewed as a whole, it shows an intention that Lear would discontinue the manufacture of products using

²⁰In *County of Alameda v. Southern Pac. Co.* (1961) 55 Cal.2d 479, 488, it was held that where a contract set forth two particulars in which one party would indemnify another for negligence, when the contract was construed as a whole it was reasonable to conclude that they would have made express provision for indemnification under a third set of circumstances, if they had so intended. In *Stimpson Computing Scale Co. v. W. F. Stimpson Co.* (1900) 104 F. 893, a license agreement under an issued patent provided that the licensee could terminate the contract on six months' notice in writing of its intention to discontinue manufacturing a device "under this contract." The court held that when all the language of the agreement was considered, the effect of the provision was only that manufacture after notice of termination must cease under the terms of the contract but that there was nothing to indicate that the manufacturer intended to stop utilizing the invention apart from the contract. After termination, it was stated, the manufacturer might be subject to an action for infringement of the patent.

Adkins' invention if it terminated the agreement under paragraph 2(a). One indication of such an intention is that the termination provision of paragraph 6, under which Lear could terminate in the event the Patent Office refused to issue a patent on the substantial claims of the application, would be almost wholly redundant if Lear could, for any reason or no reason, exercise a right of termination under paragraph 2(a) and still continue to use Adkins' invention.

Another indication of the intention of the parties is provided by a comparison of two provisions of the agreement permitting Adkins to terminate in the event Lear defaulted in its payment of royalties. Under paragraph 3(g), as set forth above, Adkins could terminate the agreement if Lear failed to pay \$500 in minimum royalties yearly, and thereafter Lear could no longer manufacture products containing Adkins' inventions. Paragraph 10(a) gave Adkins the right to terminate the agreement in the event Lear defaulted in the payment of *earned* royalties. However, this provision did not state that Lear would thenceforth be prohibited from manufacturing products incorporating Adkins' invention. It would be absurd to assume that the parties intended that Adkins could require Lear to stop using his invention if Lear failed to pay royalties of \$500 a year but if Lear defaulted in its payment of earned royalties in a very much larger amount, Adkins could terminate the agreement under paragraph 10(a) and nevertheless Lear could continue to use his invention. It seems evident that the parties did not expressly state in some provisions the requirement that Lear discontinue manufacturing products utilizing Adkins' invention in the event of termination, although they so intended.

Also persuasive are the provisions of two agreements entered into between Adkins and Lear on September 15, 1955, the same date as the license agreement. These agreements, relied upon by Lear in its answer as the basis of an affirmative defense, provided that Adkins released Lear from any claims he might have against Lear prior to September 15, 1955, including claims arising out of the agreement of December 29, 1951, *except* that he retained those rights which were secured to him by the simultaneously executed license agreement. Aside from the rights set forth in the license agreement, all inventions of Adkins prior to and after September 15, 1955, were to belong to Lear.²¹

When viewed in the light of these contemporaneous agreements, Lear's insistence that it could exercise paragraph 2(a) termination and still continue to use Adkins' invention amounts to an assertion that the parties intended by the license agreement to grant to Lear Adkins' right in the invention which was the subject of that agreement for the \$500 recited as consideration for its execution.²² That is, acceptance of Lear's contention would mean that although it was clearly under-

²¹There is confusion in the record regarding these two agreements. They were attached as exhibits to Lear's second amended answer and their relevant portions were set forth in the answer as the substance of affirmative defenses to all the causes of action. There is no question of their due execution. However, when they were offered in evidence at the trial, the court excluded them as irrelevant to the first cause of action. Nevertheless, both parties rely on them in their arguments. Lear contends that these contemporaneous contracts are integrated into the license agreement and that by virtue of the release agreement Adkins expressly contracted away all rights to any inventions except as set forth in the license agreement.

²²The provision setting forth the consideration itself negates such a construction since it states that the \$500 is paid in consideration of the "foregoing" and "the covenants and conditions hereinafter contained."

stood prior to September 15, 1955, that Adkins' inventions conceived in his employment would be his own property, Lear could, the day after the license agreement was signed, simply by giving notice of termination under paragraph 2(a), extinguish Adkins' right in the invention covered by the license agreement because the simultaneously executed contracts released all of Adkins' other rights against Lear arising out of his employment. We cannot construe the license agreement in a manner so manifestly alien to its entire purpose.

Adkins argues persuasively that the purpose of paragraph 2(a) was to permit Lear to avoid the payment of minimum royalties in the event it no longer wished to use his invention. Under paragraph 3(g) such royalties were payable while the license was in effect, whether or not Lear used the invention, and if there had not been some provision permitting termination of the license by Lear in the event of nonuse, it would have been liable for the payment of minimum royalties throughout the 17-year life of any patent subsequently issued.

We comment on one other matter briefly before concluding the discussion of the license agreement. Lear placed in evidence a letter from one of its employees, stating that he believed he had introduced cemented-in bearing cups using a mandrel procedure in 1953, which was a year before Adkins filed his application for a patent. The device of cemented-in bearing cups using a mandrel procedure constitutes the essence of Adkins' invention, as described in his application. Lear's contention amounts to no more than a claim that it entered into a bad bargain when it signed the license agreement.

Since we have concluded that the license agreement was not properly terminated by Lear, it follows that Lear has been in breach of the contract since September 10, 1957, the date on which it ceased to pay royalties to Adkins on the steel gyros.²³ It follows also that the doctrine of licensee estoppel is applicable and Lear is foreclosed from challenging the validity of Adkins' patent. The trial court thus erred in granting Lear's motion for judgment notwithstanding the verdict as to the steel gyros on the ground that Adkins' patent is invalid. As set forth above, the court also granted a new trial in the alternative on several grounds, including insufficiency of the evidence.

One of the major bases of Lear's motion for a new trial was the assertion that the evidence was insufficient to support the jury's implied determination that Lear incorporated Adkins' invention in its products. The agreement clearly sets forth that royalties are to be paid only for patented or patentable claims which Lear utilized in its products. We are therefore presented with the second major issue in this case, i.e., whether there is any substantial evidence to support the trial court's conclusion, implicit in its order granting the new trial, that the steel gyros do not incorporate Adkins' invention as defined in the claims of the patent. (See *Richardson v. Ham* (1955) 44 Cal.2d 772, 775.) We conclude, for the reasons hereinafter stated, that the

²³This conclusion is, of course, subject to our determination regarding the question of whether Lear used Adkins' invention. That is, Lear's termination under paragraph 2(a) is valid if it refrained from using Adkins' device. Since, as we have seen, Lear has stipulated that it continued to manufacture the steel gyros both before and after the termination letter of April 8, 1959, the question of termination is inextricably bound up in the issue of whether the instruments manufactured by Lear incorporated Adkins' invention.

evidence establishes that Lear used Adkins' invention in its steel gyros and that there is no substantial evidence to the contrary.

In determining the question before us we must ascertain what it is that Adkins invented. The resolution of this issue requires that the claims of the patent be construed, and this is a question of law for the court. (Rogers v. Hensley (1961) 194 Cal.App.2d 486, 491; see 4 Walker on Patents (Deller 2d ed. 1965) pp. 66-67.) Although the present action is not for infringement of a patent but rather one for the recovery of royalties under a license agreement, the test whether the products manufactured and sold by the licensee come within the coverage of the patent is the same as that employed in a patent infringement suit. (American Photocopy Eq. Co. v. Ampto, Inc. (N.J. 1964) 198 A.2d 469, 475.)

Claims must be construed in the light of the specifications and drawings of the patent and the file history of the patent's prosecution. Claims which have been allowed cannot, under the doctrine of file-wrapper estoppel, be held to cover what has previously been eliminated from the patent application in order to avoid a rejection. (Oregon Saw Chain Corp. v. McCulloch Motors Corp. (9th Cir. 1963) 323 F.2d 758, 762, 768; Moon v. Cabot Shops, Inc. (9th Cir. 1959) 270 F.2d 539, 543.) A third rule applicable to the construction of the claims of a patent is that an accused infringer may cite the prior art to construe and narrow the claims of the patent, and if he is successful in demonstrating that he has built his device solely according to the teachings of the prior art, the mere fact that the device constructed reads upon the claims of the patent assertedly infringed does not render him liable. (Westinghouse Co.

v. Formica Co. (1924) 266 U.S. 342, 351; Casco Products Corporation v. Sinko Tool & Mfg. Co. (7th Cir. 1940) 116 F.2d 119, 121.)

Adkins contended at the trial that the four steel gyros were covered by the literal language of the claims as well as under the doctrine of equivalents. Under this principle if two devices do the same work in substantially the same way and accomplish substantially the same result, they are the same, even though they differ in name, form or shape. (Graver Mfg. Co. v. Linde Co. (1950) 339 U.S. 605, 608.) The issue of infringement is a question of fact for the jury unless there is no substantial conflict in the evidence. (See 69 C.J.S. 1016.)

It is manifest from the most cursory examination of the record that the steel gyros, like Adkins' patent, utilize a pair of bearing cups which are positioned with use of a mandrel into oppositely placed receiving holes in a frame or gimbal, and cemented into place. The 2156 gyro, to be discussed later, like the illustration of the Adkins' patent application, utilizes spherical bearing cups which rest within conical receiving holes. The steel gyros, however, utilize pairs of elements having a different configuration. The receiving holes are cylindrical in shape and the bearing cups consist of cylindrical discs which fit within the receiving holes but because of an oversized flange at the open end of the cup, cannot be inserted entirely within the hole. It is held in place not only by cement between the cylindrical surfaces within the hole, but also by cement between the flanged surface and shoulder of the hole. Our problem, basically, is to determine whether such an apparatus "infringes" the apparatus described in Adkins' patent.

The file wrapper of Adkins' patent application shows approval and issuance of Claims 9 through 16, not to be confused with earlier claims, some of which bore the same numbers. These are all apparatus claims and differed basically from prior claims in that they related to a *pair* of bearing structures for the first time. Claim 9, which is the principal claim upon which the other allowed claims depend, states: "An apparatus for supporting bearings in aligned relationship which comprises a pair of bearing-receiving elements each providing means to removably support a bearing in a fixed relationship with said element, each of said bearing-receiving elements having a mounting surface by which it may be supported, means for supporting said bearing receiving elements at opposed relatively spaced positions, said supporting means providing supporting surfaces generally corresponding to said mounting surfaces and permitting said elements to be initially adjustably shifted relative to said supporting means into oriented positions where said bearing-supported means are in alignment with each other, and means to retain said bearing-receiving elements in said oriented positions to permit pairs of bearings to be interchangeably mounted in aligned relationship supported by said bearing supporting means." One of the stated objects of the invention is "... to provide a novel method of aligning the various bearings in the gimbal mountings, whereby exact coaxial alignment and parallelism between opposed bearings may be achieved."

The receiving holes in the gimbal are illustrated in the drawing submitted with the application as being conical in shape, and the outer contours of the bearing cups as being spherical. In this connection it is stated in the specifications: "The engaging spherical and conical

cal surfaces permit the bearing race axis to be oriented in any direction during the adjusting period whereby coaxial alignment and parallelism of the bearing races may be easily effected. Other surfaces capable of being aligned and fixed in position such as a sphere in sphere, knife edges or other devices may be used without coming outside the scope of this invention. . . .”

The specifications also provide as follows: “While the use of mating conical and spherical surfaces has been mentioned, it is apparent that other similarly cooperating surfaces can be used. For example, a spherical surface can be used within another spherical surface, and other combinations can be employed. . . . Further, not only may the confronting surfaces . . . be of any desired configuration, my invention also is not limited to the alignment of bearings of a gyroscope. . . . Modifications employing the principles of the present invention will occur to those skilled in the art. While a preferred form has been shown and described, it is to be understood that the invention is not to be restricted to the particular form and arrangement of parts herein described and shown, except as limited by the following claims.”

It is obvious that the literal language of Claim 9 and the specifications, which expressly make provision for “other surfaces capable of being aligned and fixed in position”, “other similarly cooperating surfaces”, and “confronting surfaces . . . of any desired configuration”, intend to cover within the scope of the invention receiving holes and bearing cups having mating surfaces of any configuration which will permit the angular adjustment of the bearing cups to a common axis, unless expressly excluded by other specific language.

We are unable to discern any specific or inferential language of exclusion of the configurations utilized in the steel gyros. The language of the claim itself requires only that the two surfaces "generally correspond." We cannot infer therein any intent to limit such correspondence to the precise configuration of a spherical bearing cup and a conical receiving hole, any more than to a cylindrical hole and a cylindrical disc which partially rests within the hole, supported by a flanged part of the disc. Moreover, the specifications do not purport to limit the configurations to any one or more combinations of shapes, but instead contemplate all configurations which reasonably might perform the described function. (See *Reiner v. I. Leon Co.* (1960) 285 F.2d 501, 504; *Filtex Corp. v. Amen Atiyeh* (1954) 216 F.2d 443, 446-447; *Chicago Pneumatic Tool Co. v. Hughes Tool Co.* (1938) 97 F.2d 945, 946-947.)

Relying on the doctrine of file-wrapper estoppel, Lear claims that Adkins is estopped to assert that the allowed claims cover the particular application of the bearing cup and receiving holes utilized in the steel gyros. The record does not support Lear. As stated, Claim 9 allows for bearing cups and receiving holes having mating surfaces of any configuration permitting angular adjustment. Here the accused apparatus falls within the literal language of the claim, thus determining the issue of coverage.²⁴ (*Graver Mfg. Co. v. Linde Co.* (1950) *supra*, 339 U.S. 605, 607.) Moreover, there is no basis for an estoppel because the particular claims at issue had not been previously rejected

²⁴As we shall see, it cannot be said in the present case that the device used in the steel gyros was built entirely according to the prior art.

and thus had not been limited by Adkins as the result of a prior rejection, and this is also true with respect to the configurations claimed by Lear to differentiate its steel gyros from Adkins' patent.

Lear's further claim that Adkins' patent describes an apparatus "different from the invention contemplated by the parties and set forth in the patent application at the time of the execution of the license agreement," is not borne out by the file wrapper. Consistent with the application developments heretofore noted, the patented apparatus falls within the scope of the initial application and, because Lear has adapted it to its steel gyros, we must conclude that the patented apparatus was within the contemplation of the parties.

It is also argued that because the spherical cups come to rest in the conical receiving holes and, while thus bearing on the conical surfaces, are cemented into permanent place, Adkins' patent is limited to those configurations which provide for contact or ball joint action between the elements.²⁵ There is nothing which supports this contention. Although such contact would normally be made, the scheme of the patent does not require it and the apparatus would be functional with or without contact while the elements were adjusted and cemented into position. Conversely, the elements used in the steel gyros, although normally not in contact, would nevertheless be functional although contact was made. The question of contact, accordingly, is not material to the issues.

There is likewise no merit to the assertion that the steel gyros do not infringe upon Adkins' invention for

²⁵In the steel gyros, cement may be interposed between all parts of the bearing surfaces.

the reason that alignment may be accomplished in the steel gyros by the lateral movement²⁶ of the bearing cups, whereas Adkins' invention does not provide for such movement. Although it is possible that lateral adjustment may accomplish some other desirable function or adjustment in the steel gyros, the alignment of the bearing cups in either the Adkins or steel gyros can be accomplished only by the angular displacement of the two cups to the same axis; that is, the axis of the mandrel, with or without lateral movement of the bearing cups. The added feature of lateral movement in the steel gyros, if it can be deemed as such, does not operate to negate an infringement of the Adkins patent if the steel gyros incorporate any claim set out in the patent. (See *Temco Co. v. Apco Co.* (1928) 275 U.S. 319, 328.)

Even if the literal language of Claim 9 did not cover the adaptation utilized in the steel gyros, the doctrine of equivalents would require that we conclude that Lear utilized Adkins' invention. Here the steel gyros contain the same elements, although perhaps different in size, form and shape, as in the Adkins patent, and they accomplish substantially the same function in substantially the same way. As the Supreme Court said in *Graver Mfg. Co. v. Linde Co.* (1950) *supra*, 339 U.S. 605, at pages 607-608, "One who seeks to pirate an invention, like one who seeks to pirate a copyrighted book or play, may be expected to introduce minor variations to conceal and shelter the piracy. Outright and forthright duplication is a dull and very rare type of infringement. To prohibit no other would place the inventor at

²⁶"Lateral movement" in these circumstances, sometimes referred to as "radial movement," is movement in a direction 90 degrees displaced from the coaxis of the bearing cups.

the mercy of verbalism and would be subordinating substance to form. It would deprive him of the benefit of his invention and would foster concealment rather than disclosure of inventions, which is one of the primary purposes of the patent system. The doctrine of equivalents evolved in response to this experience. The essence of the doctrine is that one may not practice a fraud on a patent."

It remains to be seen whether the steel gyros, although falling within the claims of Adkins' patent, nevertheless can be shown to rely solely on the teachings of the prior art, and thus permit Lear to escape any liability to Adkins. As stated above, we are required to examine the prior art not only to determine the scope of Adkins' invention but also to determine whether what is being built by Lear springs entirely therefrom. (See *Casco Products Corporation v. Sinko Tool & Mfg. Co.* (1940) *supra*, 116 F.2d 119, 121.)

Lear claims that "if defendant's devices, when compared with the teachings and disclosure of the prior art as construed by the court, accomplish substantially the same thing, and perform substantially the same result, in substantially the same way by substantially the same means as do the prior art patents then as a matter of law, defendant's products cannot infringe plaintiff's later-issued patent. Further, even if every detail of defendant's device is not completely taught by such prior art, but if it would require only ordinary mechanical skill to come up with defendant's devices in view of such prior art, then again defendant's devices as a matter of law, cannot infringe plaintiff's patent or incorporate a patentable invention of plaintiff." The trial court concluded that the prior art did, in fact, anticipate the steel gyros. It and Lear rely on the prior Schwan and Moody patents.

The Schwan patent discloses a device for aligning the rotor of a motor. It provides for a bearing, a bearing cup, and a means of fixing the cup to the frame of the motor. In these respects it is similar to the Adkins' patent. However, Schwan does not provide for angular tilt of the bearing cups, but rather for alignment of the bearings solely by the lateral movement of the cups. Parallelism is achieved in Schwan solely by the built-in parallelism of the surfaces to which the bearing cups are attached, whereas Adkins teaches that parallelism as well as coaxial alignment is to be achieved through the relative angular displacement of the bearing cups. Clearly, Schwan does not provide for the same kind or degree of cooperative relationship between the elements as Adkins, and does not accomplish the same results. *Lear utilizes the Adkins distinctions and relies on the Adkins results.*

In the Moody patent, bearings and bearing cups are fitted onto a shaft of a rotor and mounted by means of a press fit into a frame. The press fit is loose enough to permit the bearings to assume the alignment of the shaft when tapped with a hammer. Unlike Adkins, Moody does not provide for a prealignment of the bearings prior to the mounting of the shaft, does not permanently fix the bearing cups in position, and does not allow for removal and replacement of the bearings without realignment thereafter. Again, Lear's devices utilize all those distinctions by which Adkins' invention differs from that of Moody.

Other patents were urged by Lear as constituting prior art on which both Adkins and Lear relied. Thus, in Grenat, parallel and coaxial alignment is initially achieved, but bearing cups are not utilized, and bear-

ings cannot be interchanged without disturbing the alignment. In Sperry, Carlson, and Herr, a "universally mounted" bearing is utilized which constantly adjusts itself to maintain alignment while in operation. It thus does not provide fixed coaxial and parallel alignment.

In no respect was the prior art demonstrated to provide, by individual patent or collectively, a means of permanently fixing a pair of replaceable bearings on coaxial and parallel alignment.²⁷ We cannot say, as urged by Lear, that the prior art disclosed a means by which it could accomplish substantially the same result, in substantially the same way by substantially the same means as does the Adkins patent. Nor can we say that by the application of ordinary mechanical skills to the prior art, the same result may be accomplished. The prior art fails to anticipate the Adkins patent, or the utilization made thereof by Lear. Although the basic elements of the patent—bearing cups, and a means of attaching the cups—have heretofore been utilized in cooperation with each other, Adkins nevertheless makes a significant step forward in the innovation and utilization of the cooperative relationship by which he employs these elements. (See *Bates v. Cole* (1878) 98 U.S. 31, 48; *International Manufacturing Co. v. Landon, Inc.* (1964) 336 F.2d 723, 726.) In *Bates*, supra, at page 48 of 98 U.S., the United States Supreme Court pointed out that where the thing patented consists of a combination of old elements, incapable of division or separate use, the alleged infringer cannot escape liability by showing that separate parts of the entire inven-

²⁷A Lear witness testified that the interchangeability of bearings without total realignment of parts "is the key to the whole gyro design."

tion are found in various prior patents because such evidence does not warrant the conclusion that the plaintiff is not the original inventor of the patented improvement asserted to be infringed.

We conclude that the record demonstrates, without substantial conflict, that Lear utilized the apparatus patented by Adkins throughout the period in question. This conclusion is significantly supported by Lear's admission, hereinafter considered, that the 2156 gyro infringes the Adkins patent. The record shows that the 2156 gyro differs from the steel gyros only by the configuration of the mating surfaces of the bearing and receiving holes. Accordingly, the order granting the motion for a new trial cannot be affirmed on the ground of insufficiency of the evidence. Indeed, when the claims of the patent are interpreted in the manner set forth above, the conclusion that Lear utilized Adkins' invention in its steel gyros is compelled by the record.

The motion for a new trial was also granted on the ground that the jury awarded excessive damages under the influence of passion or prejudice. A witness for Adkins testified that the royalties due under the provisions of the contract were \$904,474.49, which was the exact amount awarded by the jury. This figure was based upon data supplied by Lear as to sales of products assertedly incorporating Adkins' invention, as well as upon Adkins' views as to which products were royalty-bearing. Adkins' contention, which the jury accepted, was that under the agreement Lear was required to pay royalties not only upon the gyros which utilized his apparatus but also upon certain other components and accessories manufactured by Lear for use with the gyros. Lear's sole basis for a new trial on the question

of damages was that the jury improperly included in the damages awarded, royalties resulting from the sale of components and accessories independent of the gyro itself. The determination of this question depends upon the construction of the words "gyro system" as used in the agreement. If this term is construed in the manner asserted by Adkins, the damages awarded by the jury are correct as a matter of law.

The agreement provided that royalties were to be paid on all gyro assemblies and all gyro systems embodying Adkins' invention. These terms were defined in the agreement as set forth in the footnote.²⁸ For our purposes a "gyro assembly" is the gyro itself, and a "gyro system" consists of the assembly together with other components and accessories. There is no dispute with respect to gyro assemblies—the parties agree that the whole of any assembly embodying Adkins' invention is subject to a royalty. The dispute relates to whether particular components and accessories are to be included within a system, and thus to be subject to the royalty. In determining whether a particular component or accessory constitutes a part of a gyro system and thus is royalty-bearing, it was provided that the test would be whether removal of that particular item

²⁸Paragraph 1(e) of the agreement provided: "The term 'gyro assembly' as used herein is defined as the cased instrument which intimately contains the gyro structure and other appurtenances necessary for proper operation of the gyro structure, all of which are included within the gyro assembly case."

Paragraph 1(f) provided: "The term 'gyro system' as used herein is defined as the 'gyro assembly' and components or accessories necessary to produce earth and/or aircraft gyro signals for use by other equipment such as indicators, autopilots, bombing systems, fire control systems, etc., which such other equipment such as indicators, autopilots, bombing systems, fire control systems, so using the gyro system signals shall not be considered as part of the gyro system."

from the system affected the accuracy of the signal which the system delivered to indicators, recorders or other consumers of the output signal. If accuracy was affected, the accessory or component was deemed to be a part of the gyro system. The parties referred to this as the "accuracy affecting test."

In answer to interrogatories and by stipulation, Lear admitted that a large number of components and accessories manufactured by it and incorporated into its systems met this test. The uncontradicted evidence established that other products, not included in the admissions, also met this test.

Lear argues that the accessories claimed by Adkins to meet the accuracy-affecting test and, therefore, to be royalty-bearing do not meet these qualifications. This contention is based upon the testimony of an employee of Lear that although Lear had admitted that the products designated in the interrogatories in question were accuracy-affecting, these admissions were based upon the definition of the term "gyro system" as generally used in the industry. He went on to state that *this term, as used in the agreement*, had a much more restricted meaning and that when viewed in the light of this limited definition the accessories designated in the interrogatories were not accuracy-affecting. His views in this respect were based upon the language of the agreement itself.²⁹ Adkins testified

²⁹In essence, he testified that a "gyro system," as used in the agreement, meant only a gyro itself in its case and that if the broader definition of that term current in the industry were adopted, the accessories and components asserted by Adkins to be accuracy-affecting would be included in the term "gyro system." He referred not only to the direct definition of the words in issue as quoted in footnote 28, *ante*, but also to various examples given in the agreement of the items to be included in computing net sales price on which royalties were to be based.

that the meaning of the words in issue was the same in the agreement as in the industry and included the components and accessories in issue.³⁰ The trial court agreed with Adkins' construction of the agreement and instructed the jury that Lear had admitted that specified products were accuracy-affecting.

Since the issue concerns the interpretation of a provision in a contract which neither party asserts to be ambiguous, the construction of the words in issue is a question of law for the court. (*Estate of Platt* (1942) 21 Cal.2d 343, 352.)³¹

In paragraph 1, subdivision (g), the agreement provides: "In determining whether any particular component or accessory constitutes a part of the gyro assembly or gyro system, the test shall be to ascertain whether removal of the particular component or accessory affects the accuracy of the gyro assembly or gyro system signals. If removal does affect the accuracy of the gyro assembly or gyro system signal, the component or accessory removed shall be deemed a part of

³⁰Lear also argues that the parties themselves interpreted the royalty base to be only the gyros and not the other components and accessories. In support of this claim Lear points to the fact that prior to the purported termination of the agreement Adkins had accepted royalties on only the gyro itself in the model 1005 assembly. However, it is uncontradicted that Adkins did not know at the time he accepted these royalties what instruments the 1005 assembly consisted of. He could not, therefore, be viewed as having waived any rights he may have had in this regard.

³¹*Platt* holds that an appellate court is not bound by a construction of a contract based solely upon the terms of a written instrument without the aid of evidence, since there is no issue of fact to be determined. Here, both sides agreed that the words "gyro system" as used in the industry would include the components and accessories in issue, and the conflict related only to the interpretation of that term as used in the agreement itself. Thus, no factual issues are presented. (See also Civ. Code, § 1645.)

the gyro assembly or the gyro system, but if removal does not affect the accuracy of such signal, then it shall not be deemed a part of the gyro assembly or gyro system."

It is immediately manifest that whatever Lear's admissions in the interrogatories and stipulations, and whatever the industry's definition of a gyro system, all components or accessories which affect the accuracy of the signal delivered to a consumer unit itself, are intended as a part of the royalty-bearing system under the agreement.³² We are satisfied that the components and accessories here under discussion, which are limited to units which amplify, control and adapt the gyro signal so that it may be utilized by consumer units, all affect the quality or accuracy of the signal. Lear's witness did not seem to dispute the fact that such components and accessories are accuracy-affecting and generally are properly a part of a "gyro system" as contemplated by the industry but appeared to contend instead that the parties hereto did not contemplate such a "gyro system." As indicated, we are not bound by his construction of the unambiguous language of the license agreement, and no basis appears for excluding the components and accessories in question in determining royalties.

³²It is also apparent from paragraph 3, subdivision (d), that the parties contemplated the payment of royalties on the whole of a system containing accessories and components not themselves directly incorporating Adkins' patent. That subdivision provides: "Net sales prices with respect to the sales of products incorporating inventions licensed hereunder and also containing other assemblies or components in addition thereto which do not incorporate the said inventions, shall for the purposes of determining royalties payable to Adkins, be the price established in each such contract for the 'gyro assembly' or 'gyro system' as hereinbefore defined which incorporates the inventions herein licensed."

As stated above, Lear's sole assertion in its motion for a new trial on the issue of damages relates to the definition of the term "gyro system." We have concluded that this term includes components and accessories apart from the gyro assemblies themselves. In view of the facts that, as so defined, the accuracy-affecting characteristics of these instruments were either admitted by Lear or shown by uncontradicted evidence, that Lear itself provided the sales information upon which the calculation of damages on this basis was made, and that the jury awarded the exact amount so calculated, the order for a new trial was not justified on the ground that excessive damages were awarded under the influence of passion or prejudice.

The other grounds upon which a new trial was granted were irregularity in the proceedings on the part of plaintiff by which defendant was prevented from having a fair trial, errors in law occurring at the trial, and that the verdict was against the law. We are mindful of the fact that all presumptions favor the order granting a new trial as against the verdict, that the order will be affirmed if it may be sustained on any ground and that the burden is on the party attacking the order to show an unmistakable abuse of discretion on the part of the trial court in granting a new trial. (Yarrow v. State of California (1960) 53 Cal.2d 427, 434.) Nevertheless, under the circumstances of the present case, we must conclude that the trial court's order must be reversed.

Most of the asserted errors urged by Lear in support of its motion do not constitute error in view of the matters discussed in the earlier portions of this opinion.³³ The alleged errors not covered by the prior analysis related to the question of utilization by Lear of Adkins' invention and with one or two minor exceptions³⁴ involved asserted errors in giving or refusing instructions on the issue of utilization. We need not discuss these claims of error since they could not have been prejudicial to Lear in view of our conclusion that the record compels a determination in favor of Adkins on this issue.

One asserted error requires further elucidation. Lear urgently contended in support of its motion, that the trial court should have permitted it to amend its answer during the trial to add the defense of unclean hands against Adkins. This defense was based on an alleged fraud upon the Patent Office in that Perry E. Turner, a patent agent who was employed by Lear from 1954 until the end of 1957 and who counseled Lear with respect to Adkins' application during that period, was subsequently employed by the law firm

³³Thus, Lear urged that the trial court should not have refused to instruct the jury that Adkins' patent did not cover the steel gyros as a matter of law, that the Patent Office's rejection of Adkins' application on March 21, 1957, constituted a failure of consideration as a matter of law, and that the trial court's jurisdiction of the action ended on April 8, 1959, when the agreement was purportedly terminated.

³⁴Lear argued that the trial court erred in refusing to submit to the jury a large number of special interrogatories. It was also claimed that an exhibit introduced by Adkins was labeled in such a manner as to mislead the jury on the issue of the character of Adkins' invention.

which prosecuted the application in the Patent Office, and assisted in the prosecution under the supervision of one of the attorneys of that firm. There was no error in this regard. First, this is not a suit in which Adkins is attempting to enforce his patent as such, and we are not concerned with defenses which might be available to Lear in the determination of questions of validity and infringement. The cause is based on rights emanating from a written agreement, and the patent itself is referred to only for the purpose of determining whether Lear used the invention therein set forth.³⁵ Moreover, Lear's claim of inequitable conduct by Adkins is unmeritorious on its face. Turner's employment by the law firm representing Adkins did not occur until several months after Lear breached the agreement on September 10, 1957, when it informed Adkins that it would no longer pay royalties on the steel gyros. There is no contention that Adkins was not thoroughly familiar with the steel gyros and no showing that Turner had any confidential information secured while he was an employee of Lear which he could communicate to Adkins in the amendment of his application.

The 2156 Gyro

The discussion above is also applicable to the 2156 Gyro except as it relates to coverage. The trial court applied the doctrine of licensee estoppel insofar as the 2156 gyro was concerned and held as a matter of law that Lear was barred from challenging the validity of Adkins' patent as to that instrument. It directed a verdict for Adkins on the 2156 gyro, and the parties stipulated that the royalties due for the period in ques-

³⁵This reasoning also applies to other assertions by Lear that Adkins perpetrated fraud upon the Patent Office.

tion were \$16,351.93. The trial court denied Lear's motion for judgment notwithstanding the verdict as to this gyro, but the order granting a new trial in the alternative covers all products in issue, including the 2156 gyro.

Lear concedes on appeal that it utilized Adkins' invention in its 2156 gyro. In view of this concession, the fact that the validity of the patent is not open to question, and the fact that the amount of damages was stipulated, the directed verdict in favor of Adkins and the denial of Lear's motion for judgment notwithstanding the verdict as to this gyro must be affirmed, and the granting of the motion for a new trial reversed.

It has been aptly stated that the trial court, no less than an appellate court, is expressly enjoined by article VI, section 13, of the Constitution, from granting a new trial for errors unless they are prejudicial, and that if it clearly appears that such errors could not have affected the result of the trial the court is bound to deny the motion. (*Sparks v. Redinger* (1955) 44 Cal.2d 121, 123.) Although the trial court may have erred in some regards with respect to instructing the jury on the question whether Lear utilized Adkins' invention, any errors which it may have committed could not have been prejudicial because, as we have concluded above, the jury would, in any event, have been required by the evidence to find in favor of Adkins on this issue. In view of our additional conclusions that Adkins' patent is presumptively valid and that the jury's determination of damages is correct as a matter of law, we are compelled to hold that the motion for a new trial as to the steel gyros must also be reversed.

We must, therefore, consider Lear's cross-appeal from the judgment entered on the jury's verdict on

May 4, 1964, in favor of Adkins.⁸⁶ (Cal. Rules of Court, rule 3(a); see *White v. Aetna Life Ins. Co.* (1961) 198 Cal.App.2d 370, 378.) The contentions on the cross-appeal are identical to those discussed above or are clearly answered by the previous discussion. The only additional matter is Lear's argument that the trial court improperly excluded two letters sent to Lear by Adkins prior to the consummation of the license agreement. It is claimed that the exclusion of these letters was erroneous because they would be material if it were found that the license agreement was ambiguous regarding its scope or Lear's right to terminate. Since there is neither a claim by the parties nor a finding that the agreement is ambiguous in these respects, there was no error in the court's refusal to admit these documents into evidence.

L.A. 29206

This appeal is by Adkins from the portion of the trial court's judgment dismissing his second cause of action, which was pleaded as an alternative in the event it was held that Adkins could not recover on the first cause of action for breach of the license agreement.⁸⁷ Adkins alleged in the second cause of action that he had an unpatentable invention embodying his ideas relating to bearing alignment and Lear was liable for use of this invention under the theories of misappropriation by Lear in breach of confidence and breach of an implied-in-fact contract, and that Lear was also liable under the

⁸⁶This judgment was amended on December 30, 1964, to show that the trial court had dismissed Adkins' second cause of action.

⁸⁷This is the judgment entered on May 4, 1964, on the jury's verdict in favor of Adkins and which was amended on December 30, 1964, to order the dismissal of Adkins' second cause of action.

theory of unjust enrichment. The trial court did not permit the introduction of evidence to support the second cause of action, and the jury's verdict for Adkins was based on the first cause of action. Since we have held that Adkins is entitled to recover from Lear on his first cause of action, this portion of the judgment, dismissing the second cause of action, must be affirmed.

L.A. 29207

This appeal by Lear consists of (1) its appeal from the judgment on the directed verdict as to the 2156 gyro and from the trial court's denial of its motion for judgment notwithstanding the verdict as to that product; (2) its appeal from the whole of the judgment entered on May 4, 1964, on the jury's verdict in favor of Adkins;³⁸ and (3) its appeal from the trial court's amendment of the judgment dismissing Adkins' second cause of action. In connection with the latter, Lear contends that although the court acted properly in dismissing Adkins' second cause of action, it should have indicated that the reason for the dismissal was that Adkins had waived the second cause of action during the trial rather than because Adkins refused to elect between his first and second causes of action. As we have seen, the portion of the judgment dismissing Adkins' second cause of action must be affirmed.

L.A. 29205

This appeal is by Adkins from a minute order of the trial court entered on January 24, 1964, requiring him to pay 45 percent of the cost of an independent audit of Lear's books. The total cost of the audit, which was

³⁸The subject matter of (1) and (2) is also involved in L.A. 29204.

made at Adkins' request, was \$17,880. Its purpose was to determine the number and amount of sales made by Lear of products claimed by Adkins to be royalty-bearing.

Adkins insists that the trial court's order requiring that the audit be made was imposed as a sanction against Lear for its deliberate concealment of sales information in answers to interrogatories and, therefore, that the trial court abused its discretion in imposing a portion of the cost on him.³⁹ However, an examination of the record shows that the court ordered the audit as an aid to it and to the parties, especially Adkins, on the issue of damages. It stated that the audit involved a financial burden which Adkins would have to undergo in any event for trial preparation and that it had no right to impose upon Lear the burden of financing Adkins' trial preparation. The trial court made it clear from the outset of the discussion of the independent audit that Adkins would be required to pay part of the cost. Prior to the court's order, Lear had spent over \$15,000 in auditing costs in order to comply with Adkins' requests for information, and Adkins had spent over \$5,000 in checking the information which Lear had provided.

Under all the circumstances, it cannot be said that the trial court abused its discretion in apportioning part of the auditing costs to Adkins. (*Greyhound Corp. v. Superior Court* (1961) 56 Cal.2d 355, 379-380.)

³⁹Initially, Adkins sought to obtain these figures by means of interrogatories. The information sought involved a number of complex problems and, although Lear made a number of attempts to furnish the information, Adkins was dissatisfied with the answers and made motions to have them stricken. He claimed that Lear was deliberately withholding the information he sought. Finally, he moved to appoint independent auditors and to have Lear pay the cost of the audit.

The judgment entered on May 4, 1964, as amended on December 30, 1964, including the portion thereof entered on the directed verdict, is affirmed. The judgment notwithstanding the verdict is reversed. The order granting the motion for a new trial is reversed. The order denying Lear's motion for judgment notwithstanding the verdict as to the 2156 gyro is affirmed. The order apportioning the costs of the audit is affirmed. The order granting judgment notwithstanding the verdict as to the steel gyros is not appealable, and the purported appeal therefrom is dismissed.

Adkins shall recover his costs on appeal.

Mosk, J.

We Concur:

Traynor, C. J.

McComb, J.

Peters, J.

Tobriner, J.

Burke, J.

Sullivan, J.

Order Denying Rehearing.

Order Due January 12, 1968.

In the Supreme Court of the State of California, in
Bank. L.A. Nos. 29204, 29205, 29206, 29207.

Adkins v. Lear, Inc.

Petition of Defendant and Appellant for rehearing
DENIED.

Filed, Jan. 11, 1968.

Traynor
Chief Justice

Remittitur — Issuance and Filing.

In the Supreme Court of the State of California, in
Bank. L.A. 29204, 29205, 29206, 29207.

Adkins v. Lear, Inc.

Filed, Jan. 15, 1966

Application for stay of issuance of remittitur **DE-**
NIED. This order is final forthwith.

Remittitur Issued—Jan. 15, 1968.

Traynor
Chief Justice

Stay of Enforcement.

In the Supreme Court of the State of California, in
Bank. L.A. Nos. 29204, 29205, 29206, 29207.

Adkins, v. Lear, Incorporated.

Filed Jan. 24, 1968.

Application for stay of the enforcement of orders and judgments is granted and the decision of this court reported in 67 A.C. 911, is hereby stayed to and including April 11, 1968, to permit the filing of a contemplated petition for writ of certiorari with the Supreme Court of the United States.

Upon the filing of such petition, the orders and judgments are hereby further stayed until final determination of the proceeding in the Supreme Court of the United States.

This stay to become effective upon the filing of a surety bond in the amount of \$1,200,000.00 (One Million Two Hundred Thousand Dollars) to be approved by a judge of the Superior Court of the County of Los Angeles.

Traynor
Chief Justice

Opinion of the District Court of Appeal.

In the District Court of Appeal of the State of California, Second Appellate District, Division Two.

John S. Adkins, Plaintiff, Appellant and Cross-Respondent, vs. Lear, Incorporated, Defendant, Respondent and Cross-Appellant. Civ. Nos. 28624, 29770, 30052, 30089.

Filed Aug. 8, 1966.

Appeals from judgment and orders of the Superior Court for Los Angeles County. Brodie Ahlport, Judge. Judgment n.o.v., reversed. Order denying defendant's motion for judgment n.o.v. in part, reversed. Order granting new trial, affirmed. Judgment as amended dismissing second cause of action, affirmed. Action remanded for new trial on issue of damages only. Appeals from order granting motion for judgment n.o.v. in part, and from order apportioning costs of audit dismissed.

Rosenfeld, Meyer & Susman, and Peter R. Cohen, for Appellant.

Christie, Parker & Hale, C. Russell Hale, Edwin L. Hartz, and Kenneth C. Newell, for Respondent.

This is an action for damages for breach of an agreement dated September 15, 1955, hereafter referred to as the license agreement, and for unjust enrichment (first cause of action) and, in the alternative for breach of an implied contract, misappropriation and unjust enrichment (second cause of action).

Plaintiff Adkins, under the license agreement, granted an exclusive license to defendant Lear, Incorporated, herein referred to as Lear, to manufacture and sell "products and parts and components thereof

(including gyros, gyro systems, gyro apparatus and gyro mechanisms) covered by or containing one or more of all the inventions and any patents issued or hereafter issued thereon," under the claims of Adkins' then pending application for a patent, upon payment of agreed royalties. It was understood by the parties that the word "claims" as used in the license agreement shall mean the claims of the then pending application for a patent "which have been or will be patentable by Adkins." The agreed royalties were to be paid only "[w]hile one or more of the licenses granted under this Agreement is in effect."¹

The case was tried to a jury on the first cause of action on Adkins' claim for damages with respect to five models of gyroscopes manufactured by Lear. As to one model, No. 2156, the court directed a verdict for Adkins. On the other four models, Nos. 2151, 2152, 2153 and 2171, here collectively referred to as the "steel" gyros, the jury returned a verdict in favor of Adkins. Judgment on the verdict on the first cause of action was entered on May 4, 1964. On July 2, 1964, the court (1) denied Lear's motion for judgment n.o.v. on model 2156; (2) granted the motion as to the other four models; and (3) granted Lear's motion for a new trial in the alternative as to all models. Judgment n.o.v. was entered accordingly on July 15, 1964.

¹Adkins in fact granted Lear three licenses in identical terms under the claims of a certain patent referred to as "Exhibit 'A'", and under the claims of certain patent applications referred to as "Exhibit 'B'" and "Exhibit 'C'". The only license involved here is that under the claims of "Exhibit 'B'", being the application for letters patent filed by Adkins on February 15, 1954, "and all patents issued or issuing thereon to Adkins with respect to the inventions disclosed or intended to be disclosed therein."

Civ. No. 28624 includes (1) Adkins' appeal from the judgment n.o.v. for Lear on the "steel" gyros and from the order granting Lear's motion for a new trial; (2) Lear's appeal from the judgment on the directed verdict as to model 2156 and from the denial of its motion for judgment n.o.v. on that model; and (3) Lear's appeal from the whole of the judgment entered May 4, 1964.

The judgment was amended December 30, 1964, dismissing Adkins' second cause of action pursuant to the mandate of this court in *Civ. No. 28603*.

Civ. No. 30089 includes Lear's renewed appeal as to items (2) and (3) in *Civ. No. 28624* (renoticed as a matter of precaution), and its appeal from the amendment of December 30, except as to the dismissal of the second cause of action.

Civ. No. 30052 is Adkins' appeal from the dismissal of his second cause of action by the judgment as amended December 30, 1964.

Civ. No. 29770 is Adkins' appeal from an order apportioning the cost of an independent audit during discovery proceedings.

Factual Background

Adkins is a mechanical engineer. Lear is a manufacturer of aircraft flight instruments, including gyroscopes, gyro systems, gyro apparatus and gyro mechanisms, with a research and development facility in Santa Monica, California, and a development and production facility in Grand Rapids, Michigan.

Adkins joined Lear in Santa Monica as an inventor in January 1952, following the execution of an

agreement in December 1951 in which Adkins agreed in substance to disclose and license to Lear all ideas, discoveries and inventions relating to gyroscopes, hereafter referred to as gyros, in return for a "mutually satisfactory royalty." Upon his employment Adkins went to work in Santa Monica developing gyros with higher precision than those then being manufactured by Lear which could be produced at a lower cost.

We are concerned here with the manufacture of gyroscopes as used in aircraft to tell the pilot the direction and attitude of the aircraft. Simply stated, the gyro maintains its fixed position in space and the movements of the aircraft around it are measured electronically and recorded on gauges. In all gyros in issue here there is a part called a rotor, driven electrically at high speed. The rotor is mounted in a "gimbal ring", sometimes called the inner gimbal ring or inner axis, which in turn is mounted on the outer gimbal ring or axis, the whole structure being mounted in a frame fixed to the aircraft. Each gimbal ring, when fully assembled, has two short axle ends 180° apart, called trunions, which lie on a common axis. Each trunion is inserted into a bearing element which is fixed in the gimbal assembled around it. Each bearing element consists of an inner and an outer race or ring and a plurality of balls between the two races. The most important factor in achieving gyro accuracy is accurate alignment of the pair of ball bearing elements on the opposite ends of the gimbals with each other. The faces of the bearing elements must be parallel with each other and the centers must be coaxial with each other in order to avoid friction and consequent drift of the gyro rotor from its stable position in space. Gyros which indicate the direction of the aircraft are known as directional

gyros, while those which indicate its pitch and roll are known as vertical gyros.

In the summer of 1952, after experimenting with and rejecting the use of self-aligning ball bearing elements or cups, Adkins conceived his invention of a means of holding a pair of bearing elements in pre-aligned coaxial and parallel relationship to each other and cementing them in place in oversize holes in the gimbal, and immediately communicated his invention to Lear. By September 1952 Adkins had completed two experimental models for vertical gyros with cemented in bearing elements. At this time Lear was engaged in producing vertical gyros for the Air Force in a competition with other manufacturers. It was accordingly decided that Adkins would work on directional gyros and Lear, at Grand Rapids, would begin experimental work on improving its vertical gyros. Both, of course, were working on the production at low cost gyros having a high precision which would be more difficult for Lear's competition to obtain. Thereafter Adkins adapted his invention to the Navy requirements for a directional gyro system known as the MA-1 Compass System. The gyro in this system was designated as model 2156.

In its experiments at Grand Rapids, Lear first used a flanged cylindrical bearing element fitting into a cylindrical hole in the gimbal and a flat metal washer with two knife-like projections placed over the cylindrical portions of the bearing cup, referred to at the trial as a "tippy washer," which permitted the bearing element when inserted in the receiving hole to rock on the washer in two different planes. This was referred to at the trial as a self-aligning "knife edge" type of con-

struction. In the fall of 1953, Lear abandoned this type of construction in its models 2151 and 2152 and decided to adopt the construction used by Adkins in model 2156. The first such use of this method was in October 1953. The evidence shows that some time later the same method of construction was used by Lear in the construction of models 2151 and 2171. The only difference between model 2156 as developed by Adkins and the other models as developed by Lear in Michigan was in the shapes of the bearing elements and receiving holes and in the size of the flange used in the bearing element in model 2171.

As originally filed in February 1954, Adkins' application for a patent, described as Exhibit "B" in the agreement, and so far as material here, included the following claims: "7. A method of aligning bearings supporting a relatively movable element . . . ; 8. A method of aligning bearings in coaxial relationship and parallel planes for supporting a rotatable element in mounting, . . . ; 9. An alignable bearing structure for supporting an element movable with respect to another element, . . ." Examination of the file wrapper shows that these claims were rejected by the Patent Office September 18, 1954, "as being substantially fully met by the patent to Carlson." On March 7, 1955, Adkins cancelled claims 7 and 8, amended claim 9 in one particular, and submitted new claims 18 and 19 with reference to the "method of bearing alignment." This was the status of the application when the license agreement was executed.

It should be said here that, as a part of the consideration for the licenses granted to it, Lear reimbursed Adkins for patent costs already incurred by him and

agreed to pay all costs for preparation and prosecution of all applications for patents on inventions set forth and disclosed in Exhibit "B", provided Adkins secured Lear's prior written approval therefor. Adkins agreed to prosecute his applications and to "submit all such applications to Lear for approval prior to the filing thereof." It was further agreed that "Adkins shall immediately upon receipt by him, furnish to Lear a copy of each action taken by the U.S. Patent Office with respect to such applications and to consult with Lear before taking any action with respect thereto, and also to notify Lear when a patent or patents have issued."

On March 21, 1957, the Patent Office notified Adkins that "Claims 9, 18, and 19 are rejected as being obviously fully met by the patent to Grenat." Thus it appears that all Adkins' claims had been rejected by the Patent Office when Lear wrote Adkins on September 10, 1957, that his application, Exhibit "B", "does not disclose any inventions utilized in any Lear equipment except the MA-1 system and certain components thereof [model 2156]. Specifically, we do not believe that any models of the so-called 'Steel Gyro' come within the scope of Exhibit 'B'. We have made a search of the U. S. Patent Office files and believe that the method of bearing alignment heretofore and currently used in assembling the Lear 'Steel' gyroscopes is not patentable."

In response to the Patent Office action of March 21, 1957, Adkins again amended his application on Sep-

tember 27, 1957, further amending claims 9, 18 and 19, and adding new claims 20 and 21, each on an "alignable bearing construction." A supplemental amendment, dated December 31, 1957, adding new claims 22 through 26, each on "an alignable bearing construction", was filed with the Patent Office January 13, 1958, shortly after Adkins terminated his employment with Lear. On January 20, 1958, the Patent Office rejected amended claims 9, 18 and 19 "as being fully met by Grenat," and rejected the new claims 20 through 26 "as being fully met by the patent to Sperry."

On December 22, 1958, Adkins filed a further amendment to claim 9 and submitted new claims 27 and 28 in place of claims 18 and 19, and added certain new material to the specifications. On March 4, 1959, Adkins cancelled his claims 9, 27 and 28 and substituted new claims 29 through 41, claims 29 through 36 being on "an apparatus or supporting bearings in aligned relationship." The application as thus amended was pending when Lear wrote Adkins on April 8, 1959, that it was "exercising its rights and options to terminate the agreement and the licenses therein granted." On July 21, 1959, the new claims 29 through 36 were allowed and renumbered by the Patent Office as claims 9 through 16, and a patent on those claims was issued January 5, 1960.

Adkins' complaint was filed in January 1960 shortly after the issuance of the patent. After extensive discovery and pretrial proceedings the case went to trial in 1964 on the first cause of action only.

*Appeals Relating to
the Judgment N.O.V.*

Adkins sought to recover damages for breach of the license agreement and for unjust enrichment after the purported termination of the agreement by Lear in April 1959, based primarily on claims 9, 13, 14 and 16 of his patent.

During the trial the court denied Lear's motion for a directed verdict, which was made on some twelve grounds, each of which was to the effect that all of Adkins' alleged causes of action "are void and unenforceable" for the reasons stated in the notice of motion. At the conclusion of a lengthy trial, the court on its own motion directed a verdict in favor of Adkins on the 2156 gyro as a part of MA-1 compass system, and it was stipulated that on that model Adkins was entitled to recover \$16,351.93 for the period from January 1, 1955 to May 31, 1963. The case then went to the jury on instructions to determine whether the patent was invalid in respect to the four "steel" gyros, whether the patent "covers and is infringed" by one or more of those gyros, and whether the license agreement had been breached by Lear and the damages suffered by Adkins. The jury returned a verdict for Adkins and judgment was entered on May 4, 1964, for \$904,474.49 which was the full amount of his claim with interest.

Lear moved for a judgment n.o.v. "upon the grounds stated in defendant's motion for a directed verdict and that there is no sufficient evidence substantially to support a verdict in favor of plaintiff." The court denied the motion as to model 2156, with this comment: "The court directed a verdict for plaintiff for \$16,351.93 as royalty under a license agreement for the use of plain-

tiff's bearing structure as described in patent no. 2-919-586. Defendant's liability for this amount rested upon its status as a licensee. Under the established rule it was estopped to deny the validity of its licensor's patent." The court granted the motion as to the "steel" gyros, holding as to these models that "the rule of estoppel does not apply," that the patent is invalid, and that "since, as a matter of law, neither of defendant's devices could be the subject of a valid patent to anyone, it follows that plaintiff cannot claim them as equivalents under or as infringing his patent (even if valid)." Judgment was entered accordingly on July 15, 1964, and both Adkins and Lear appealed.

The overall question to be decided on the appeals from the judgment n.o.v. is whether the evidence was sufficient to support the verdict in favor of Adkins. A motion for a judgment n.o.v. may be granted by the trial court "only where, disregarding conflicting evidence on behalf of the defendants and giving to plaintiff's evidence all the value to which it is legally entitled, therein indulging in every legitimate inference which may be drawn from that evidence, the result is a determination that there is no evidence of sufficient substantiality to support a verdict in favor of the plaintiff." (*Reynolds v. Willson*, (1958) 51 Cal.2d 94, 99.) On a motion for a judgment notwithstanding the verdict in favor of defendants the trial court "is not permitted to weigh the evidence, and on an appeal from the judgment entered on the granting of such a motion, the appellate court must read the record in the light most advantageous to the plaintiff, resolve all conflicts in his favor, and give him the benefit of all reasonable inferences in support of the judgment." (*Quintal v. Laurel Grove Hospital*, 62 Cal.2d 154, 159.)

The Scope of the Bargain

The verdict of the jury was necessarily based on the implied finding that the license as granted to Lear extended to the patent issued to Adkins in January 1960, and that the gyros manufactured by Lear were covered by that patent. A proper construction of the license agreement leads us to the conclusion that there is no substantial evidence to sustain this implied finding.

The parties are agreed that Adkins' right to recover under his first cause of action is based upon the license agreement. Adkins contends that under that agreement he is entitled to the payment of royalties for the use of his invention as defined in the claims of his application for a patent and in the claims of the patent itself. Lear contends that it did not get what it bargained for under the license agreement, in that the invention as there defined was not patentable, and that after the termination of the license agreement in April 1959 it was a stranger to the patent as issued several months later. It was stipulated at the trial that Lear continued to make all five gyros after it had terminated payment on all except model 2156 in September 1957 and after it terminated the license agreement in April 1958. There is no suggestion that the license agreement is ambiguous.

The construction of the license agreement is governed by state law. As the court said in *Farmland Irrigation Co. v. Dopplmaier*, 48 Cal.2d 208: "It has been established by a long line of cases moreover, that an action to set aside, specifically enforce, or recover royalties on a patent license contract is not an action arising under the patent laws of the United States for the purpose of

determining the exclusive jurisdiction of the federal courts. [Citations.] State courts have jurisdiction over such actions, and in the absence of diversity of citizenship it is exclusive of the federal courts." (P. 217.)

"The plaintiff's cause of action arose under and was governed by the general common law of contracts. . . .

[T]he law governing the elements of the plaintiff's cause of action is state law—state law acting of its own force and not merely by incorporation into federal law." (P. 218.) (To the same effect see *Lear Siegler, Inc. v. Adkins*, 300 F. 2d 595, affirming an order staying proceedings in the U.S. District Court relating to the agreement and patent involved here.)

In our opinion the proper construction of the license agreement supports Lear's contentions. The license agreement before us was negotiated after Adkins had disclosed his invention to Lear as required by the agreement of December 29, 1951, and by its express terms cancelled and superseded that agreement. In the license agreement Adkins represented and warranted that "to the best of his knowledge and belief *he is the owner of the inventions* covering the substantial claims as disclosed or intended to be disclosed in the Application for U.S. Patent on gyroscopes attached hereto and hereafter referred to as Exhibit 'B' and incorporated herein as a part hereof, which application was filed February 15, 1954, and is presently pending in the United States Patent Office and that there are no licenses or agreements outstanding which prevent him from granting unto Lear *an exclusive license respecting said inventions* and products embodying *said inventions*, in accordance with the provisions hereof; . . ." "[I]n consideration of the foregoing and \$500.00 in hand paid,

. . . and of the covenants and conditions hereinafter contained," Adkins granted to Lear "(2) *an exclusive license under all the claims* of Exhibit 'B' . . . ; it is understood, however, *that whenever the word 'claims' is used in this paragraph it shall mean the claims in the respective Exhibits which have been patented or will be patentable by Adkins.*" Exhibit "B" is "deemed to refer to and include" Adkins' application for a patent filed February 15, 1954, "and all patents issuing thereon to Adkins with respect to the inventions disclosed or intended to be disclosed therein." An invention as used in the agreement is defined in 1(d) as: "The term 'said inventions' as used in this Agreement shall include . . . (2) all claims and inventions disclosed or intended to be disclosed in said Exhibit 'B' . . . *but only to the extent that such claims or inventions mentioned in said Exhibits are patented or patentable by Adkins.*"

Paragraph 3(a) of the agreement relating to royalties provides that while the license is in effect, "Lear agrees to pay Adkins with respect to products incorporating *said inventions* [see definitions above] . . . royalties of 1¼% based on net sales prices . . . received by Lear for said products, *it being understood that said rate shall be paid only on products incorporating one or more or all of said inventions.*" (Emphasis added.) Under paragraph 3(g) "[u]nless this Agreement is sooner terminated as herein provided," Adkins was entitled to receive certain minimum royalties on account of "products manufactured and sold by Lear," provided the license as to Exhibit "B" "in force and effect, . . . (b) embodying the inventions disclosed or intended to be disclosed in Exhibit 'B'," as a credit in reduction

of the royalty payments due Adkins under paragraph 3 for each year.

We think it is evident from the provisions of the license agreement that what Lear was interested in and willing to pay for was the right to use Adkins' invention, that is, the right to use what was new and constituted progress over apparatus already known to the trade which were patentable by Adkins. It seems highly improbable that Lear would agree to pay royalties indefinitely on parts long known, and which until the time of the license it could have manufactured and sold royalty free. The provisions defining sums received from license sales provide in effect that a royalty would be due on sums received on sales of products incorporating Adkins' inventions to the extent only that the claims of his then pending application were patentable. The agreement to continue the payment of royalties is tied directly to the test of the patentability of the claims of his then pending application. (Cf. *Farmland Irrigation Co. v. Dopplmaier*, 48 Cal.2d 208, 224-225; and cf. *Eastman Oil Etc. Corp. v. Lane-Wells Co.*, 21 Cal.2d 872, holding that "the term royalty ordinarily envisages a duty to make and a corresponding right to the use of patented methods on machines.")

The question here is whether Adkins' inventions as described in the claims of his application were patentable. By repeatedly expressing this requirement in the license agreement, the parties intended that unless the invention was patentable under the laws of the United States, Lear would be under no continuing legal obligation to Adkins. Thus we are required to focus our attention "on the patentability of inventions under the standard of Art. I, § 8, ch. 8, of the Con-

stitution and under the conditions prescribed by the laws of the United States," (*Graham v. John Deere Co.*, 383 U.S. 1, 15 L.Ed.2d 545,) rather than on the "validity" of the patent *per se*.

It is beside the point that when the license agreement was executed, the parties agreed that "the MA-1 compass Lear Model No. 5005 [incorporating gyro model 2156], the Directional Steel Gyro Lear Model No. 2152, and the Vertical Steel Gyro Lear Model No. 2153, are the only products manufactured by Lear under the licenses herein granted, which contain any of the inventions or claims described and covered by the respective Exhibits of this Agreement," and it is equally beside the point that the invention was later incorporated in Lear's models Nos. 2151 and 2157. At the most, Adkins had but one "invention" which he first disclosed to Lear in July 1952, and on which he later applied for a patent. Adkins' right under the license agreement to the continued payment of royalties was expressly conditioned upon the patentability of that invention and the claims of his application for a patent. If that invention as so claimed was not patentable, either as incorporated in model 2156 as developed by Adkins in Santa Monica or in the "steel" gyros in which it was used by Lear in Grand Rapids, Lear's continuing obligation to pay royalties thereon would come to an end.

The provisions of the license agreement just referred to must be read "in the light of the subject matter of the contract and the apparent intention of the parties." (*Eastman Oil Etc. Corp. v. Lane-Wells Co.*, 21 Cal.2d 872, 873.) Since the patentability of the invention could only be determined in the first instance by the Patent Office and ultimately by the courts (*Graham v.*

John Deere Co., 383 U.S. 1, 15 L.Ed.2d 545), neither the license agreement that certain products manufactured by Lear in September 1955 incorporated Adkins' inventions or claims described and covered by Exhibit "B", nor Lear's letter of September 1957 can be considered as an admission by Lear that Adkins' invention was patentable.

As we have seen, the license agreement here was entered into in consideration of the patentability of Adkins' "invention" and the claims described in Exhibit "B". In September 1957 Lear concluded that Adkins' patent application did not disclose any inventions utilized by any Lear equipment, and that the method of bearing alignment used by Lear in assembling the "steel" gyros is not patentable. This conclusion was obviously based on the Patent Office action of March 1957 rejecting Adkins' claims as they stood at the time the license agreement was executed, and fairly anticipated the Patent Office action of January 20, 1958, rejecting the claims as amended by Adkins in March 1957 and on January 13, 1958. The actions of the Patent Office in March 1957 and in January 1958 rejecting all claims then pending constituted "final adverse action by the Patent Office". Adkins recognized the finality of this action in March 1959 when he cancelled all his previous claims and submitted the new claims on which the patent was finally issued. The issuance of the patent in January 1960 did not revive the claims which had been rejected. "It is well established that the claims of a patent must be read and interpreted in the light of claims which had been rejected. . . . Claims which have been allowed cannot, by construction, be read to cover what has thus been eliminated

from the patent. *Schriber-Schroth Co. v. Cleveland Trust Co.*, [311 U.S. 211], (rehearing denied 312 U.S. 654, 61 S.Ct. 235, 85 L.Ed. 132)." (*Oregon Saw Chain Corp. v. McCulloch Motors Corp.*, 323 F.2d 758, 768.) Furthermore, as the court said in *Oregon Saw Chain*, the patentee "cannot regain 'by recourse to the doctrine of equivalents' that which he, by strict construction of the claim, has disclaimed. The doctrine of equivalents 'at most operates, by liberal construction, to secure to the inventor the full benefits, *not disclaimed*, of the claims allowed'. (*Exhibit Supply Co. v. Ace Corp.*, 1942, 315 U.S. 126 at 136-137, 62 S.Ct. 513, at 518, 86 L.Ed. 736. Emphasis added.)"

Here, in contrast with *Del Riccio v. Photochart*, 124 Cal.App.2d 301, 309-312, the patentability of Adkins' invention was the major, material consideration for the license agreement. When the Patent Office determined that that invention was not patentable "the heart of the contract at bar" failed, and upon giving notice to Adkins of its termination in April 1959, Lear was relieved of its obligations to Adkins under the license agreement after such Patent Office action.

*Estoppel to Attack
Validity of Patent*

Adkins urgently contends that in this action Lear is estopped to attack the validity of his patent. He relies on the rule as stated in *Automatic Radio Mfg. Co. v. Hazeltine Research*, 339 U.S. 827, that "the licensee under a patent license agreement may not challenge the validity of the licensed patent in a suit for royalties due under the contract." He also relies on *Bowers Mfg. Co. v. All-Steel Equipment, Inc.*, 275 F.2d 809, and *Del Riccio v. Photochart*, 124 Cal.App.2d 301, 312, in

which this rule was followed. This has always been the rule in California. (*Martin v. Pinney*, 163 Cal. 652, 654.)

We have concluded that there is no basis on which Adkins can invoke the doctrine of estoppel for the reason that the validity of the patent issued to Adkins in January 1960 is not in issue here.

Adkins' contention is necessarily based on the assumption that a patent was issued on the claims of the application described in the license agreement, and that the five gyros involved here were covered by his patent, and on his contention that the license agreement was not validly terminated by Lear. Adkins' assumption that the patent was issued on the claims of his application described in the license agreement is not warranted by the record. As we have seen, the claims of the application as they stood in September 1955 and as amended in March 1957 were all rejected by the Patent Office, and that the patent issued to Adkins in January 1960 was based entirely on the new claims filed by him in July 1959. So far as the rejected claims are concerned, the case thus comes within the rule that when an invention is not patentable, the patent laws preclude an invention from involving the doctrine of estoppel as a means of continuing, as against his license, the benefit of a non-existent monopoly, just as they preclude the licensee from estopping himself "from enjoying rights which it is the policy of the patent laws to free from all restrictions." (*Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 257, 90 L.Ed. 47, 52.) None of the cases relied on by Adkins is in point here for the reason that each of them involved a licensed patent.

Lear concedes that it would be estopped to contest the validity of any patent issued to Adkins on the claims of his application described in the license agreement so long as it continued to operate under that agreement. It contends, however, not only that no such patent was issued, but further that this estoppel no longer existed after it terminated the agreement in April 1959. It relies on the rule stated in *Stimpson Computing Scale Co. v. W. F. Stimpson Co.*, C.C.A. 7th, 104 F. 893, *The Armstrong Co. v. Shell Oil of California*, 98 Cal.App. 769, 779, and several other cases that after the termination of a license the parties are freed from the estoppel resting upon them, and that thereafter the licensee, in an action for royalties under the license agreement, may attack the validity of a patent issued to the former licensor to the same extent as a stranger might.

The exception relied on by Lear is clearly applicable here. As the court said in *Armstrong* (p. 779): "A licensee is estopped to show the invalidity of licensed patents as a defense to an action for royalties only so long as the relation of licensor and licensee continues and the licensee uses and enjoys the benefit and protection of the patents covered by the agreement. . . . A licensee, if the patents are in fact invalid, may, without waiting to be evicted, denounce and abandon the license, and after giving notice thereof to the licensor, may defend against an action to enforce the license or to recover royalties subsequently accruing, with the same freedom as may a stranger to the patent, and the licensor is remitted to his infringement suit."

On April 8, 1959, Lear gave written notice to Adkins that it thereby "exercises its rights and options to ter-

minate the agreement and the licenses thereunder," referring particularly to paragraphs 2(a) and 6 of the agreement. Lear thus placed itself in the position of a stranger both to the then pending patent application as well and to the patent which was issued some nine months later on the new claims which were not made by Adkins until July 1959.

Adkins' contention that the license agreement was not effectively terminated by Lear's letter of April 8, 1959, is equally without merit. Under paragraph 2 of the agreement, Lear had "the right on ninety days" prior written notice to Adkins, to terminate any one or more of the [three] licenses herein granted," including the license under Exhibit "B". It is provided in paragraph 6, that "in the event the Patent Office refuses to issue a patent on the substantial claims of the application attached as Exhibit 'B', . . . then . . . Lear at its option shall have the right forthwith to terminate the specific license so affected or to terminate this entire Agreement and no further royalties shall thereupon be payable under the license so terminated or under this Agreement if Lear shall have elected to terminate this Agreement in its entirety."

It is apparent from the facts shown in the Patent Office file wrapper delineated above that as of April 8, 1959, the Patent Office had refused to issue a patent on any of the substantial claims of Adkins' application then pending and had, in fact, refused to issue a patent on any of those claims. Lear was thus well within its rights on that date in terminating both the license and the agreement in its entirety. The case is thus distinguishable from *Bowers Mfg. Co. v. All-Steel Equipment, Inc.*, 275 F.2d 809, which involved a licensed pat-

ent. There the licensee was held to its agreement because neither of the events set forth in the agreement permitting cancellation had occurred. When, as here, the license agreement contained no recital or clause admitting the patentability of Adkins' invention and no stipulation not to dispute or contest the patentability thereof, Lear, having ascertained that the invention was not patentable under any of the substantial claims of the application, could refuse to be bound thereby and, upon termination and notice as provided in the license agreement, could defend against Adkins' action for royalties as freely as may a stranger. In such a case, "there is no continuing consideration for the agreement." (*The Armstrong Company v. Shell Company of California*, 98 Cal.App. 769, 779-780.)

The controlling issue here is whether Adkins obtained a patent on the relevant claims of his application which was the subject matter of the license agreement. The record shows that the Patent Office expressly refused to issue a patent on any of those claims even after they had been amended. The patent issued to Adkins in January 1960 based on his new claims filed after the termination of the license agreement was not a part of the subject matter of the license granted by that agreement. Consequently the validity of that patent is not in issue in this action, to recover royalties payable as provided in the license agreement. It is thus unnecessary to consider whether the five gyros involved here are covered by the claims of that patent. On that issue Adkins is relegated to an action for infringement.

Unjust Enrichment

Adkins further contends that even though the license and the agreement were terminated by Lear's letter of April 8, 1959, Lear was still liable to him on the theory of an implied contract if it continued to manufacture the four "steel" gyros. This contention is based on *Seagren v. Smith*, 63 Cal.App.2d 733. There the licensee held a license to manufacture certain pumps invented by the licensor on which he had already received a patent, and no question of infringement or of the patentability of the invention was involved. After the licensee cancelled the agreement the licensor continued to manufacture the same pumps it was theretofore manufacturing under the agreement. The court held that as to the pumps manufactured after the cancellation of the agreement, the licensee was liable to the licensor "upon the theory of implied contract based upon the well-recognized and settled principle that a person shall not be permitted to enrich himself at the expense of another. (17 C.J.S. pp. 322-323.) Clearly, the trial court had jurisdiction of that portion of appellant's cause of action which arose after the cancellation of the agreement, upon the theory of implied contract."

- In our opinion, *Seagren v. Smith* is readily distinguishable from the case before us. Here, as we have seen, the license agreement was terminated because the Patent Office had refused to issue a patent on any of the substantial claims of the application. This being so, Lear could not thereafter be held liable to Adkins on the theory of unjust enrichment because it continued to use Adkins' unpatentable invention. (Cf. *The Armstrong Company v. Shell Company of California*, 98 Cal.

mental ideas embodied in the Reynolds invention but also a specific application of those ideas evolved by Reynolds himself and communicated to defendant because of the confidential relationship into which the parties had entered for the development of the invention. In other words, defendant is not an independent manufacturer, nor is it a mere licensee manufacturing a machine obtained from an independent source. It is a licensee who was working with Reynolds in the joint enterprise of developing his machine for the market, and who brought out a machine based upon his ideas which he conceived and which he communicated in aid of the joint enterprise. There can be no question but that defendant is liable for royalties on the machines embodying Reynolds' idea so communicated, quite irrespective of patent coverage or the terms of the license contract. That there was a confidential relationship existing between defendant and Reynolds when they agreed to work together for the development and marketing of his invention is so clear as not to admit of argument. Cf. *Baker Oil Tools v. Burch*, 10 Cir., 71 F.2d 31, 37."

As to the measure of damages to be awarded in such cases the court said in *Saco-Lowell Shops*, 141 F.2d at 598, that the measure of recovery is the royalty provided in the license agreement.

The law of this state as to the liability of the licensee in such a case is to the same effect. In *Davis v. Kittle Mfg. Co.*, 134 Cal.App. 254, the court said at p. 262: "Appellant next contends that 'plaintiff cannot collect royalties on future inventions.' The rule appears to be otherwise. 'The license may be given before issuance of patent. . . .' (48 C.J., p. 264.) 'The

inventor of an unpatented device may make a valid contract for its manufacture, use or sale. It is no objection to the validity of such a contract that any person may manufacture it until a patent is issued. . . . If, therefore, the defendant contracted to pay a royalty before patent was issued, the plaintiff is entitled to recover.' (*Hamilton v. Park McKay Co.*, 112 Mich. 138 [70 N.W. 436], citing numerous authorities.) This contention is without merit."

To sum the matter up, it appears to us that when the Patent Office refused to issue a patent "on the substantial claims of the application" there was an end to Lear's obligation under the license agreement; and that Lear was then well within its rights in terminating both the license and the agreement in its entirety in April 1959. The patent which was finally issued to Adkins in January 1960 was not a patent on the claims of Adkins' application as it stood when the license agreement was executed, or on the claims made by Adkins in September 1957, or on those made in December 1958 which were cancelled by Adkins in March 1959. Consequently the patent was not within the scope of the license and the question of its validity was not before the trial court. As the case stands, however, the termination of the license and the agreement did not relieve Lear of its entire obligation to Adkins.

Under the law as we find it, Lear is still liable to Adkins for royalties due under the license agreement from January 1, 1955, until it came to an end on April 8, 1959. This is in accord with paragraph 3(c) of the license agreement providing that Lear would account to Adkins quarterly on "the net sales prices received on all sales by it of products subject to royalty under the

licenses herein granted which are then in effect during each quarter-annual period beginning January 1, 1955."

In view of our conclusions as to the law which must control our decision, it would serve no useful purpose to consider the numerous other points raised and extensively argued by both Adkins and Lear on their respective appeals relating to the judgment n.o.v.

By its verdict the jury awarded damages in the full amount claimed by Adkins for the period from January 1, 1955 to May 31, 1963. Under the rules discussed above, Adkins was entitled to royalties due to him under the license agreement on all five gyro models for the period during which that agreement was in force, that is, from January 1, 1955 to April 8, 1959, when the license agreement was terminated. There is no evidence sufficiently substantial to sustain the verdict for royalties for the period after April 8, 1959. It follows that in directing a verdict for Adkins as to gyro model 2156 for royalties for the longer period and in denying Lear's motion for judgment n.o.v. with respect thereto, the trial court was in error. Similarly, the court was in error in granting Lear's motion for judgment n.o.v. with respect to the four "steel" gyros, thereby denying all relief to Adkins with respect thereto. Accordingly the judgment n.o.v. must be reversed.

*Appeal from Order Granting
A New Trial in the Alternative*

Concurrent with its determination of Lear's motion for judgment n.o.v., the trial court granted Lear's motion for a new trial on each of four grounds assigned therefor, including "insufficiency of the evidence to justify the verdict, or that it is against law." In its

ruling on this motion the court found "specifically that the evidence was insufficient to justify the verdict and that the verdict is against (law) and grants a new trial on each of said grounds" and filed its written order accordingly, pursuant to Code Civ. Proc., § 657.

Adkins' first point on appeal from this order is that the trial court erred in holding that the damages awarded by the jury were not the result of passion or prejudice. We find no error in this determination. "To say that a verdict has been influenced by passion and prejudice is but another way of saying that the verdict exceeds any amount justified by the evidence." (*Zibbell v. Southern Pacific Co.*, 160 Cal. 237, 254; *Koyer v. McComber*, 12 Cal.2d 175, 182.) Similarly "[i]n passing upon a motion for a new trial based upon the insufficiency of the evidence, it is the exclusive province of the trial court to judge the credibility of the witnesses, determine the probative force of testimony, and weigh the evidence [citations]. . . . It is only where it can be said as a matter of law that there is no substantial evidence to support a contrary judgment that an appellate court will reverse the order of the trial court." (*Brooks v. Metropolitan Life Ins. Co.*, 27 Cal.2d 305, 307.)

The parties are agreed that to the extent Lear is liable to Adkins under the license agreement, the award of damages must be based on paragraph 3 of the agreement. That paragraph provided that royalties would be computed on the net sales prices of Lear's products incorporating one or more of Adkins' inventions, including the price charged for "gyro assemblies" and "gyro systems" as those terms are defined in the agreement. Competent evidence was introduced

App. 769.) We agree with Lear that when an article is unpatentable and therefore in the public domain, it may be made and sold by whomever chooses to do so, and that as a general rule the inventor cannot recover damages under state law because this would interfere with federal policy as found in the Constitution, Art. 1, sec. 8, ch. 8, and the implementing federal statutes. (*Sears Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225; *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234; *Cable Vision, Inc. v. KUTV, Inc.*, 385 F.2d 348, 351.) While Adkins may be entitled to protection of the invention for which he obtained his patent in an action for infringement, he is not entitled in this action to collect royalties for the use of the invention referred to in the license agreement after a patent on that invention under the claims of his application had been denied by the Patent Office. (*Marvin v. Mills Alloys, Inc.*, 31 Cal.App.2d 549; see also *The Armstrong Company v. Shell Company of California*, 98 Cal.App. 769, 779.)

It appears to us that the case here is to be determined by the rule stated in *Eclipse Bicycle Co. v. Farrow*, 199 U.S. 581, 50 L.Ed. 317, and *Saco-Lowell Shops v. Reynolds*, 141 F.2d 587.

The facts in *Eclipse Bicycle Co. v. Farrow* are strikingly similar to those before us. In that case a bill had been brought upon an agreement to recover royalties. The agreement, so far as pertinent here, recited that Farrow had invented certain improvements pertaining to the mechanism for coasting and braking bicycles, for which he had applied for patents, and that Eclipse Bicycle Co. desired to acquire Farrow's rights "to said inventions as described in the above identified applications, and any letters patent that may

be issued thereon," and that Farrow thereby conveyed to the company all his right, title and interest in "the inventions in bicycles, as fully described and claimed in the applications above referred to," and in letters patent that may be issued thereon. The company agreed to pay royalties "on all the devices made or sold embodying the inventions referred to" and to that end to make returns of the number of devices sold. Finally it was covenanted that in case Farrow "for any reason fails to procure letters patent of the United States for the improvements above referred to, the [company] shall be relieved from the payment of all royalties from and after the date of final adverse action of the Patent Office on the application or applications for patents for said improvements." The bill alleged that soon after the agreement was made, one Morrow, defendant's general manager, applied for a patent on a device in effect the same as Farrow's, that Morrow assigned a half interest therein to the company's president, and that the company began to manufacture and sell the Morrow device. A supplemental bill alleged that upon the sale of Farrow's interest, the company, which had power to do so, failed to prosecute Farrow's applications. As a consequence one of Farrow's applications was abandoned and the other was permitted by the company to lapse. The answer as summarized by the Court admitted the contract, but denied the plaintiff's case, charged him with fraud, and set up that Farrow's invention had been anticipated by another patent, "and that it was impossible to obtain a patent for it, and that, therefore, the defendant was not bound by the contract further."

The Supreme Court held that Farrow could recover on his contract. The real questions in the case, said

the Court (199 U.S. at 586-587), are whether the devices involved "fall within the scope of the contract, and these questions depend more upon a careful construction of that instrument than upon nice discriminations between the patents that were or might have been issued. If either of the contrivances used embodies the invention described in Farrow's applications, then the defendant is bound to account for it by the express terms of its covenant, unless the contract is at an end."

After noting that some of Farrow's claims had been allowed "and there was no such final adverse action of the Patent Office upon either application as a whole as to exonerate the defendant by the terms of which we have recited," the Court continued (199 U.S. at pp. 587-588): "We come back to the construction of the contract. The royalty is to be paid on the 'invention above referred to.' The use of the word 'invention' does not open the state of the prior art and allow the defendant to meet the plaintiff's claim by proving that he had invented nothing new. The royalty is to be paid on the invention described in the specified applications—that is to say, on the contrivances there described—unless and until there is final adverse action by the Patent Office. That is the measure of the defendant's self-protection. It could not have asked or been allowed more. . . . It had all Farrow's interests in its hands, and it took the risk of their worth, except as against what the Patent Office might do. It should be repeated that, so far as the company made any device embodying Farrow's invention, by the fair construction of its express covenant it was bound to account, whether the manufacture was ostensibly Farrow's or not, and he was not left merely to an action for such damages as he could prove."

Saco-Lowell Shops v. Reynolds, 141 F.2d 587, was also an appeal from a decree in a suit to recover royalties under a contract. The contract there licensed the manufacture of "an improved process of cotton roving frame," on which Reynolds as inventor had obtained patents. One question before the court was "whether certain model J roving frames manufactured by defendant are subject to royalties under the licensing contract."

After holding that these frames were properly held by the trial court "to be covered by the patent and hence subject to the payment of royalties under the contract," the court said (141 F.2d at 596): "The liability of the defendant for royalties, however, is to be determined by the terms of the contract, not by technical considerations of patent law. If the J frames which defendant is manufacturing substantially embody the Reynolds invention, defendant is liable for royalties irrespective of the validity of the claims, so long as they have not been held to be invalid, and irrespective of whether or not certain features of the invention may be found in the prior art. Controlling in this aspect of the case is the decision in *Eclipse Bicycle Co. v. Farrow*, 199 U.S. 581, 586-588, 26 S.Ct. 150, 152, 50 L.Ed. 317."

The further comments of the court in *Saco-Lowell Shops* with reference to the confidential relationship between the parties are also pertinent here. "The liability of defendant here is not to be determined as upon a charge of patent infringement nor even as in the case of an ordinary licensee under contract for the payment of royalties, for the reason that the J frames upon which royalties are claimed embody not only the funda-

by Adkins as to the amount of royalties claimed by Adkins under these provisions for the period from January 1, 1955 to May 31, 1963, as claimed by Adkins. It is significant that the computations of Adkins' accountant were based on Lear's answers to certain interrogatories in which Lear grouped its sales of gyros and of its gyro systems and gyro assemblies, sometimes referred to in the evidence and in the court's instructions as embracing gyro system signals and gyro assembly signals, and that these interrogatories in turn are based on Lear's responses to certain requests for admissions. As to model 2156 the parties stipulated with reference to the amount which would be due for the same period.

As we have pointed out above, the damages awarded by the jury were excessive in that they were not limited to the period from January 1, 1955 to April 8, 1959 when the license agreement was in force. For this reason, if for none other, the trial court was correct in granting the motion for a new trial on the ground that the "damages appearing to have been given under the influence of passion or prejudice" were excessive, and that "the evidence was insufficient to justify the verdict and that the verdict is against law."

Lear's contention that the damages were excessive is based wholly on the testimony of its employee, Vernon Burns. This contention is without merit. Burns' testimony as to what should be included in computing net sales was based on his interpretation of the agreement. In *Ellsworth v. Palmtag*, 168 Cal. 360, 363, it was held that where "questions relating to the contract were framed so that answers would reflect defendant's interpretation of the agreement, rather than the

terms thereof, plaintiff's objections should have been sustained." When this part of Burns' testimony is disregarded, the remainder is consistent with the evidence produced by Adkins.

On its motion for a new trial Lear claimed that the court erred in giving certain instructions and in refusing to give certain other instructions; that it erred in refusing to submit well over a hundred special interrogatories to the jury; and that it erred in its rulings with respect to Adkins' use of a certain exhibit to illustrate his testimony and in failing to properly instruct the jury with respect thereto. All these matters related primarily to the question of the validity of the patent and its coverage of Adkins' invention. In view of our conclusion that the patent as issued was not within the scope of the agreement, and that the validity of the patent was not properly in issue before the trial court, there is no need to extend this opinion with a discussion of these matters.

There was no error in the court's refusal to admit in evidence the three agreements executed by Adkins on September 15, 1955, concurrently with the execution of the license agreement, copies of which were attached to Lear's answer. One of these agreements contained a release "to this date" of all claims by Adkins under his agreement of December 1951 including claims arising out of his employment. The documents were offered as being relevant and material to the issue of liability apart from the license agreement and after termination of that agreement. As we have pointed out, Lear is not liable to Adkins apart from the agreement or for any period of time after its termination.

In our opinion the order granting the new trial must be affirmed and the case remanded for a new trial solely on the issue of the royalties to which Adkins may be entitled for the period from January 1, 1955 to April 8, 1959 under the provisions of the license agreement.

*Lear's Cross-Appeal
from the Judgment*

By reason of our conclusions with respect to the necessity for a new trial on the issue of damages only, the issues raised by Lear's appeal from the judgment have become moot, and the appeal should be dismissed.

*Appeals re Dismissal
of Second Cause of Action*

Adkins' second cause of action, in which he repleads the principal allegations of his first cause of action, is for damages for misappropriation of his "idea and invention for precise alignment of gyroscope gimbal bearings utilizing cemented bearing-receiving elements" which he disclosed to Lear in 1952, and for breach of an implied contract and for unjust enrichment. In his trial brief and during the trial he waived all claims under the second cause of action "except for the invention which is the subject matter of Patent 2,919,586, or for the ideas, or discoveries thereof." During the trial Adkins conceded that his second cause of action had been pleaded in the alternative to the first. Accordingly, without requiring him to make an election, the second cause of action was held in abeyance until it could be determined whether "for some reason the contract fails to cover the invention which Mr. Adkins disclosed to Lear." Still later, although no formal rul-

ing appears in the record, the court effectuated a dismissal of the second cause of action insofar as it had not been waived, by refusing to admit evidence in support of the unwaived allegations.

After the judgment n.o.v. had been entered the trial court denied Adkins' request to amend the judgment "to indicate that the second cause of action was dismissed by the court," stating in the minute order: "Examination of the record reveals that the plaintiff duly waived in open court under the second cause of action: 1. Any and all claims for any ideas, discoveries, or inventions not covered by patent 2,919,586. 2. Any claim for punitive damages. Plaintiff recognized categorically that he was proceeding on one cause of action—an express contract and not an implied contract." In order that it could be determined on appeal from the judgment whether, as a matter of law, Adkins had waived the entire second cause of action, this court, on Adkins' petition for a writ of mandate in Civil No. 28603, held that "the judgment should be amended to show a disposition of the second cause of action." As issued, the writ ordered the trial court to enter an amendment to the judgment in the following terms: "At the outset of the trial, plaintiff John S. Adkins waived all ideas, discoveries and inventions under the second cause of action except for the idea, discovery and invention which is the subject matter of U.S. Patent No. 2,919,586. The Court then required plaintiff to elect between the first and second cause of action, and when plaintiff refused to do so, the Court then dismissed the second cause of action which, after the plaintiff's waiver, remained for the idea, discovery and invention which is the subject matter of U.S. Patent No. 2,919,586, and the same is hereby dismissed." The

trial court complied with this mandate on December 30, 1964.

It is Adkins' position on this appeal that, unless the judgment n.o.v. and the order granting a new trial are reversed (in which event he will have recovered on his primary cause of action), the judgment of dismissal must be reversed and remanded for trial on his second cause of action.

The amendment to the judgment of December 30, 1964, was not erroneous. Adkins' waivers effectively limited his second cause of action to a claim for damages for unjust enrichment by reason of Lear's alleged misappropriation of "the invention which is the subject matter of Patent 2,919,586, or for the ideas, or discoveries thereof." With respect to that invention Adkins' rights are measured exclusively by the patent and by the federal patent laws. To permit Adkins to claim protection of that invention under the common law or any law of this state would be to "give protection of a kind that clashes with the objective of the Federal patent laws." (*Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225; *Compco Corp. v. Day-Brite Lighting Inc.*, 376 U.S. 234.) It should also be noted that when, as here, a plaintiff relies upon a valid express contract his recovery must rest upon and be measured by its terms, and cannot recover upon the theory of an implied contract. (*Thacker v. American Foundry*, 78 Cal.App.2d 76; *Lemoge Electric v. County of San Mateo*, 46 Cal.2d 659.)

That part of the judgment as amended December 30, 1964, dismissing Adkins' second cause of action must be affirmed.

*Adkins' Appeal from
Order Apportioning Costs*

Adkins has appealed from an order made January 24, 1964, apportioning the costs of an audit of Lear's books (Civ. No. 29770).

The audit involved here was ordered by the court as an aid to Adkins' discovery proceedings designed to ascertain the number of sales of gyros, gyro assemblies and gyro systems manufactured and sold by Lear from January 1, 1955, to the date of Lear's answers to Adkins' interrogatories and the net sales price received by Lear. Lear's first answers to the interrogatories were filed in July 1963. The record reflects extended proceedings before the court, initiated in the main by Adkins, to compel Lear to furnish further information. These proceedings terminated in an order on September 20, 1963, for the audit which was modified after further proceedings on October 18. Under this order the court reserved the power to apportion the costs of the audit. After the audit was completed and further answers to Adkins' interrogatories had been filed the auditors submitted their bill for \$17,880. After further hearings the Court on January 24, 1964, made the order appealed from, ordering Adkins to pay 45% of the cost of the audit, and Lear to pay 55%.

On appeal Adkins claims that in apportioning these costs the trial court "abused its discretion, requiring a total reversal of its order." Lear says in reply that there was no abuse of discretion and that, in any event, the order is not appealable.

"The better view is that an order made for the purpose of furthering discovery proceedings; or granting sanctions for refusal to make discovery, is not appealable (*Huenergardt v. Huenergardt*, 218 Cal.App.2d 455, [32 Cal.Rptr. 714]; *Farnham v. Superior Court*, 188 Cal.App.2d 451, 455 [10 Cal.Rptr. 615])." (*Lund v. Superior Court*, 61 Cal.2d 698, 709.)

The appeal from the order apportioning costs of the audit must be dismissed.

In Civ. No. 28624, the judgment non obstante verdicto entered July 15, 1964, is reversed. That part of the minute order of July 2, 1964, granting defendant's motion for judgment n.o.v. with respect to the four "steel" gyros is not appealable, and the appeal therefrom is dismissed. The order of July 2, 1964, denying defendant's motion for judgment n.o.v. with respect to the model 2156 gyro is reversed. The order of July 2, 1964, granting defendant's motion for a new trial is affirmed. The appeal from the judgment entered May 4, 1964, is dismissed.

In Civ. Nos. 30052 and 30089, the judgment as amended December 30, 1964, dismissing plaintiff's second cause of action is affirmed.

In Civ. No. 29770, the appeal from order of January 24, 1964, apportioning the costs of an audit is dismissed.

The case is remanded to the trial court for a new trial solely on the issue of the damages to which plain-

tiff is entitled under the license agreement for the period from January 1, 1955 to April 8, 1959.

In Civ. No. 28624, Adkins shall recover all his costs on his appeal from the judgment notwithstanding the verdict and on Lear's appeals from the order denying in part its motion for a judgment notwithstanding the verdict and from the whole of the judgment entered May 4, 1964.

In Civ. No. 30052, Lear shall recover its costs on appeal.

In Civ. No. 30089, Adkins shall recover his costs on appeal.

In Civ. Nos. 29770 and 30052 Lear shall recover its costs on appeal.

McCoy, J.*

We concur.

Roth, P. J.

Herndon, J.

*Sitting pro tempore under assignment by the Chairman of the Judicial Council.

Modification of Opinion.

In the District Court of Appeal of the State of California, Second Appellate District, Division Two.

John S. Adkins, Plaintiff, Appellant and Cross-Respondent, vs. Lear, Incorporated, Defendant, Respondent and Cross-Appellant. Civ. Nos. 28624, 29770, 30052, 30089.

Filed Sept. 2, 1966.

THE COURT:

The opinion of the court filed August 8, 1966, is modified by deleting therefrom that part beginning in the second line from the bottom of page 23^a of the ditto copy with the words "When, as here, the license agreement . . ." to and including the 9th line at the top of page 24, and inserting the following language in lieu thereof:

"When Lear terminated the license and the license agreement by its letter of April 8, 1959, the license with respect to Exhibit 'B' was non-exclusive by virtue of the provisions of paragraph 11 of the license agreement, Adkins having terminated his employment by Lear in January 1958."

The petitions for rehearing are denied.

Judgment on Verdict in Open Court.

In the Superior Court of the State of California, in and for the County of Los Angeles.

John S. Adkins, Plaintiff, vs. Lear, Incorporated, Defendant. No. 737267.

Filed May 1, 1964.

This action came on regularly for trial on the 9th day of March, 1964, the plaintiff appearing by attorney

Peter Cohen, and the defendant appearing by attorney Edwin Hartz.

A jury of 12 persons was regularly impaneled and sworn to try the action. Witnesses on the part of the plaintiff and the defendant were sworn and examined. After hearing the evidence, the arguments of counsel, and instructions of the Court, the jury retired to consider of their verdict, and subsequently returned into Court, and being called answered to their names and duly rendered their verdict in writing in words and figures as follows, to wit:

"TITLE OF COURT AND CAUSE" We, the jury in the above entitled action, PURSUANT TO THE COURT'S DIRECTION, FIND FOR THE PLAINTIFF ON THE #2156 GYRO IN THE SUM OF \$16,351.93.

WE FURTHER FIND FOR THE PLAINTIFF AND AGAINST THE DEFENDANT FOR THE BALANCE OF HIS ACTION IN THE SUM OF \$888,122.56

THIS 1ST DAY OF MAY, 1964.

Virgil R. Witt
Foreman

WHEREFORE, by virtue of the law, and by reason of the premises aforesaid, it is ordered, adjudged, and decreed that said PLAINTIFF JOHN S. ADKINS have and recover from said DEFENDANT LEAR, INCORPORATED THE SUM OF \$904,474.49, with interest thereon at the rate of seven per cent per annum from the date of the verdict until paid together with costs and disbursements amounting to the sum of \$.....

[Seal]

Rulings on Motions for Judgment Notwithstanding the Verdict and, in the Alternative, for a New Trial.

Superior Court of the State of California, for the County of Los Angeles.

John S. Adkins, Plaintiff, vs. Lear, Incorporated, Defendant. No. 737 267.

Before the Court are defendant Lear's motions for judgment notwithstanding the verdict and, in the alternative, for a new trial.

The Court directed a verdict for plaintiff for \$16,351.93 as royalty under a license agreement for the use of plaintiff's bearing structure as described in patent No. 2-919-586. Defendant's liability for this amount rested upon its status as a licensee. Under the established rule it was estopped to deny the validity of its licensor's patent. Pursuant to the Court's direction, the jury returned the verdict. That portion of the verdict is not now disturbed.

But plaintiff claimed, in addition, that defendant's so-called "Michigan" device was subject to plaintiff's patent under the rule of equivalence. The jury so found and returned a verdict for royalties due in the sum of \$888,122.56.

In this phase of the case, the rule of estoppel does not apply. Lear is free to assert that its own device is not covered by plaintiff's patent and, further, that plaintiff's patent is invalid. Otherwise, plaintiff would be in the position of being able to assert estoppel against every product of Lear which plaintiff deemed an equivalent.

Plaintiff twice conceded at the trial that he had no part in designing or inventing defendant's "Michigan" device. Both of the structures involved here were designed by employees of Lear. Each was developed independently: plaintiff's at the Santa Monica, California, plant; defendant's in Michigan. Each was developed within a few weeks of the other. There was no collaboration or joint activity. Plaintiff sought a patent on its device and after protracted prosecution and a personal presentation at Washington, D. C., was granted certain claims. He now asserts that defendant's "Michigan" device is covered by his patent as an equivalent, under claims 9, 13, 14 and 16.

Neither device was put on the public market. Defendant used a limited number of plaintiff's devices as covered by the directed verdict. The "Michigan" device has been used with success in defendant's gyroscopes.

The issues now presented are:

- (1) Is plaintiff's patent No. 2-919-586 valid?
- (2) Assuming its validity, does it cover defendant's device under the rule of equivalents?

Plaintiff's patent is challenged frontally as a mere aggregation of features old in the art, as lacking invention, being within the skills of any craftsman in the field and long a device in the public domain.

Plaintiff's device is shown diagrammatically in sketch "A"; defendant's in sketch "B".

The asserted novelty of plaintiff's invention is the coaxing relationship of a pair of surfaces, such as a ball, or a section thereof, nesting in a cone, or a com-

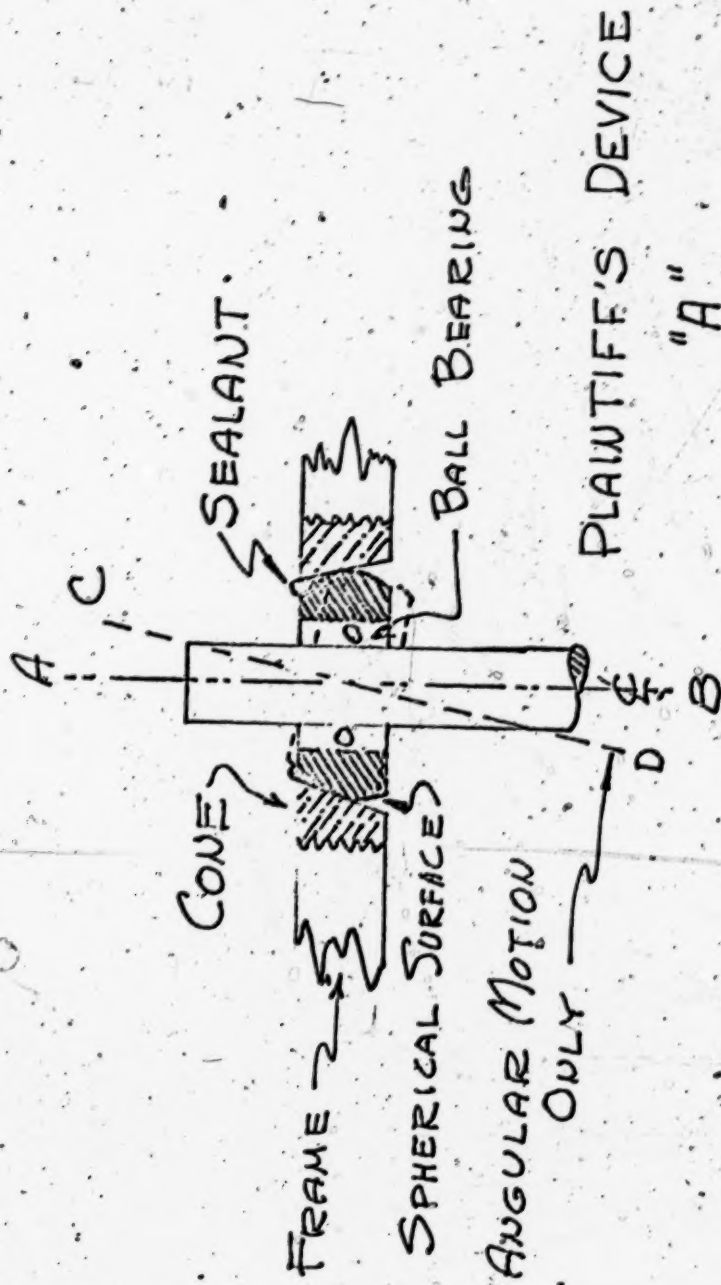
ination of surfaces comprising segments of two spheres. In such a device the inner element is capable of angular movement only.

Thus, in sketch "A", it is obvious that the only motion of the shaft A-B is the 'angular' motion shown by a dotted line, such as C-D. No radial motion or adjustment is possible without separating the parts. To lift the ball upward in the cone so that sidewise or radial motion is possible would strip plaintiff's invention of its assigned functions and instead of practicing his invention, plaintiff would be ignoring it. To separate the parts in practice is to admit their inutility.

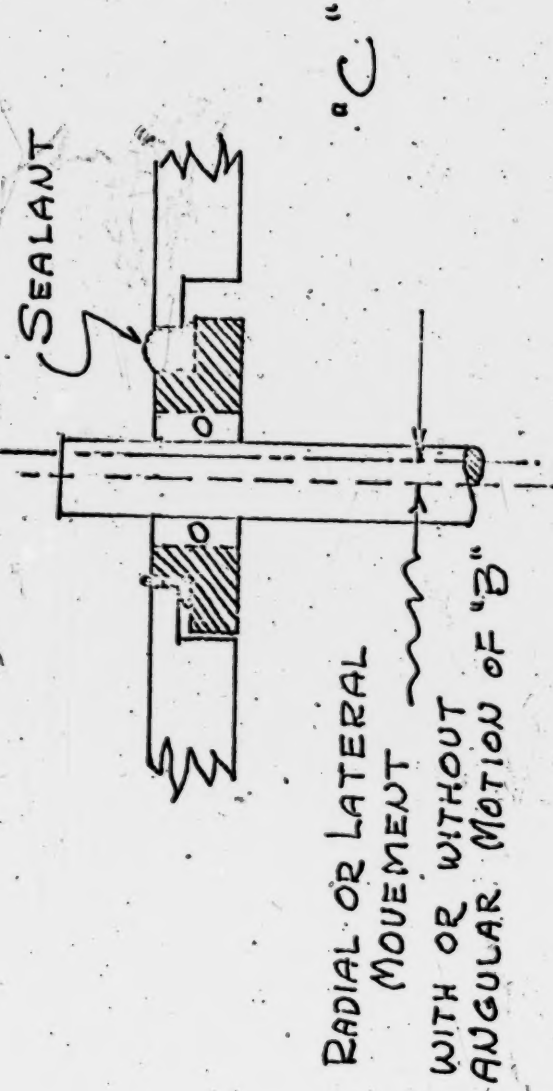
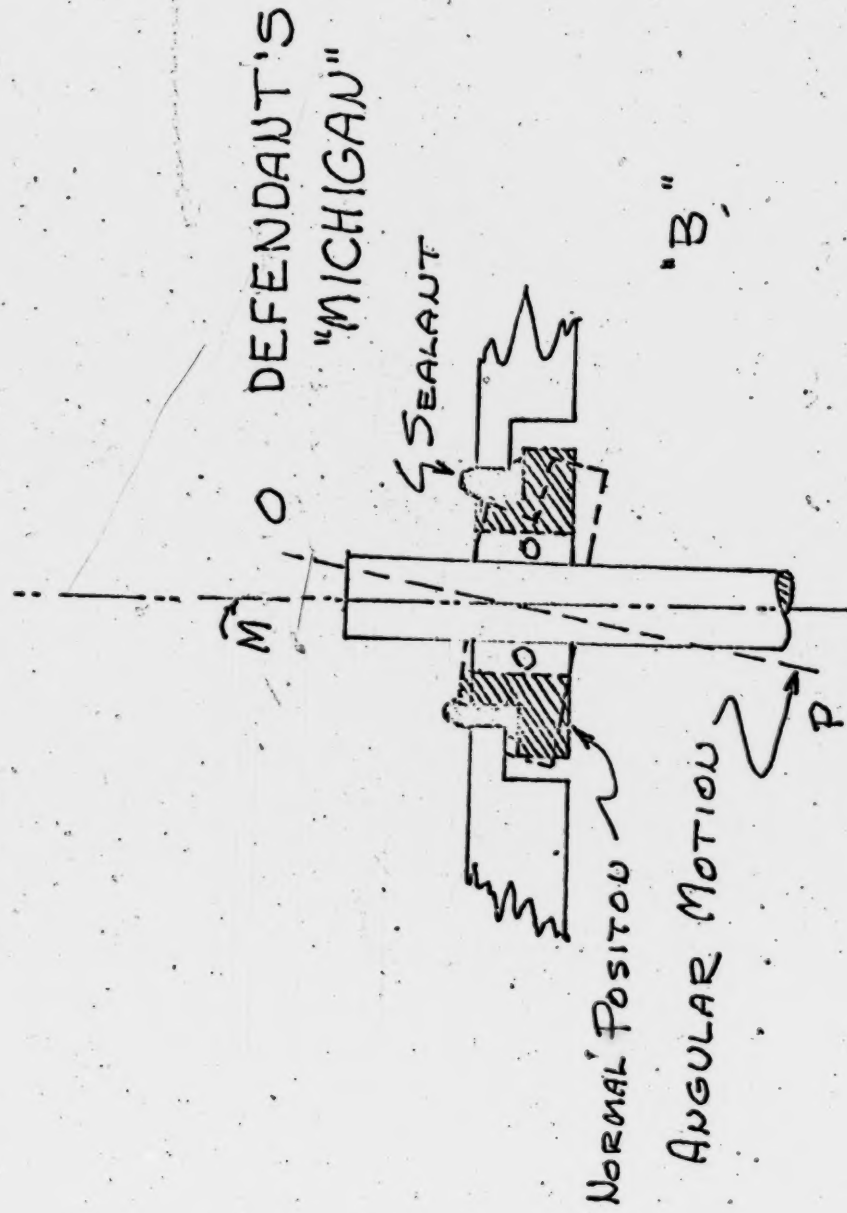
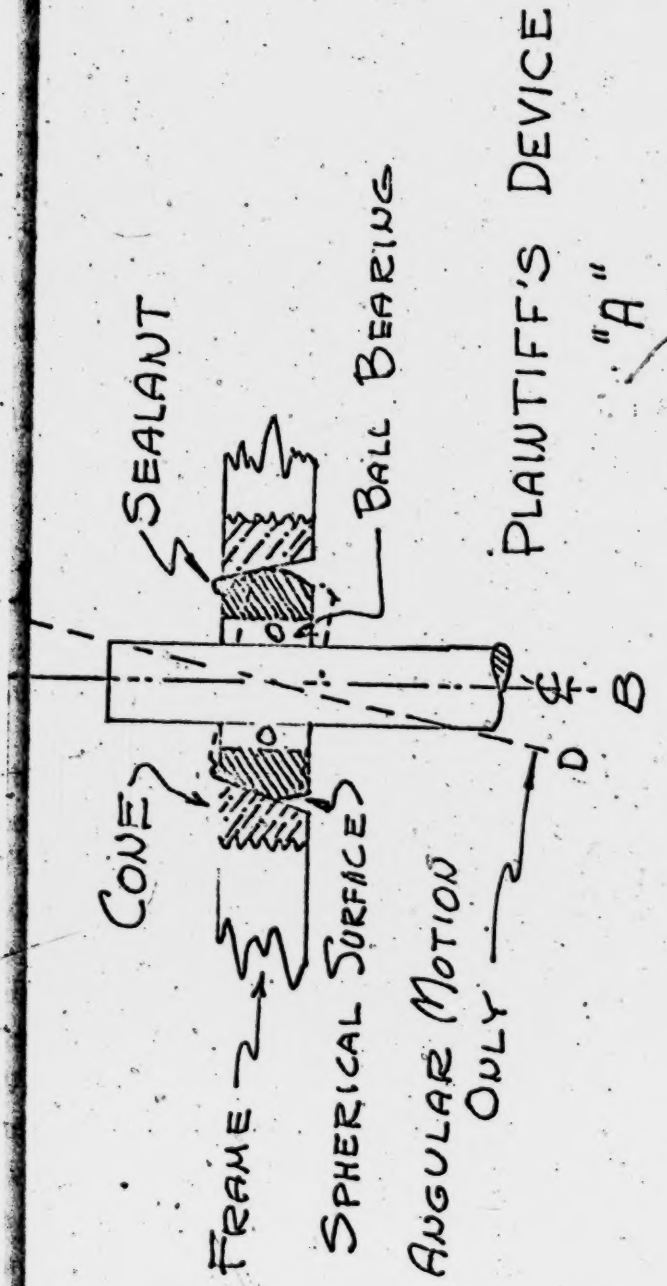
It is to be noted that in plaintiff's device contact between the inner part, such as a sphere, and the outer part, such as a cone, is limited to a single line of contact. This line of contact is circular if the shaft A-B coincides with the center line of the cone or funnel, otherwise it is an ellipse. There is no surface or area contact between the ball or inner element and plaintiff's cone, irrespective whether the latter is straight or spherical.

When the two bearings of plaintiff's device have been adjusted into place by means of a dummy shaft or mandrel, molten lead or plastic is applied in such manner as to prevent further movement between the cone and the sphere.

In defendant's device there is a cylindrical bearing holder with a flange for mounting in a slightly oversized hole in the frame. It may then be radially adjusted within the limits of the hole. Plastic or molten metal, such as lead, is then poured in the annular space between the bearing-holder and the frame. Angular adjustment may be made in this device as in Schwan's



DEFENDANT'S



patent, which will be considered later. It may also be achieved simply by withdrawing the bearing-holder flange from the frame and tilting it as required. It is then sealed in place with plastic or molten metal.

The prior art cited in plaintiff's application included, inter alia, the following:

Sperry No. 1-342-397, which discloses a pair of bearings housed in sections of spheres for angular movement.

Carlson No. 2-352-469, wherein the shaft is angularly self-aligning by means of bearing-holders having outer spherical surfaces nesting freely within a cylindrical outer bearing-holder.

Grenat No. 2-531-334 shows a bearing sleeve tapered externally and internally formed to receive the shaft. The tapered sleeve fits into a hole in the frame and is adjustable angularly only. It is fixed in position by filling the annular space between the sleeve and the frame with a quick setting material such as Babbitt. The cone contacts the frame in a line only, and as in plaintiff's device this line forms a circle or an ellipse according to the position of the shaft. In simple form this device anticipates every feature of plaintiff's. Plaintiff evidently thought so, too, and purchased this patent.

Not cited by the Patent Office are the following significant patents:

Schwan No. 2-704-693 discloses a complete anticipation of the defendant's "Michigan" bearing. It shows a ball bearing, an element for holding said bearing—and an annular space between the bearing and the frame to provide for radial adjustment. All the claims are specific to radial adjustment of the bearing-holder.

It will be apparent at once that to the extent that either bearing in Schwan is moved radially in one direction and the other is moved less, or in any other direction, that an *angular* movement of the shaft has occurred at each bearing.

Moody No. 2-530-533 reveals a precise configuration of defendant's device—bearing sleeve—flanged bearing-holder and housing. Add only a slightly oversized hole to permit adjustment and to secure the bearing and defendant's "Michigan" device is precisely and completely anticipated. Drilling an oversized hole and filling the annular space with plastic does not involve invention.

Herr No. 2-633-544 shows a conically tipped shaft rotating in a self-aligning hemispherical bearing, nesting in a cone in the same manner as plaintiff's. The bearings are free to adjust themselves to the axis of rotation precisely in the manner of plaintiff's.

No invention would be involved in substituting the sleeve or ball bearing for the conical bearing or soldering in lieu of screw joints. This patent is a complete anticipation of plaintiff. It would be well within the skills of a mechanic to make plaintiff's device from the teachings of Herr alone.

In summary, defendant's "Michigan" device differs from plaintiff's in these particulars:

1. It may be adjusted radially after assembly. In contrast plaintiff's device has no radial motion whatever.

2. It may be adjusted angularly by tilting the shaft and bearings since contact between the bearing-holder and the supporting frame is not necessary.

3. Contact between the bearing-holder and the frame is a flat area of any desired size.

4. The bearing-holder is fixed in position directly to the frame. No intermediate member, such as plaintiff's cone, is required. This alone is a patentable distinction.

With the two devices now in focus, the prior art cited forces the question:

Was any patentable invention involved in plaintiff's patented device, or was it merely an aggregation of old parts and elements performing no new or different function?

This is purely a question of law. (*Bergman vs. Aluminum Lock*, Ninth Circuit, 1958—251 Fed. 2d 801; *Monroe Auto vs. Superior Industries, Inc.*, Ninth Circuit, May 22, 1964; U.S. Court of Appeals 141 U.S. Pat. Quarterly 710).

Neither device at bar represents or involves the inventive concept; neither has brought to light what lay hidden or created something which had not before existed. Neither device can be distinguished from the results of simple mechanical skill. A patent cannot be sustained when its effect is merely to subtract from former resources freely available to skilled artisans. (*Kwikset Locks vs. Hilgren*, Ninth Circuit Appeals, 1954—210 Fed. 2d 483.)

The prior art, as disclosed by the patents cited above, dissipate any presumption of validity in the case at bar. "The existence of but one pertinent example of unconsidered prior art is not only sufficient basis to dissipate the presumption of validity, but may render the patent invalid". (*Monroe Auto vs. Superior*, supra.)

In *Great Atlantic & Pacific Tea Co., vs. Supermarket Equipment, etc.*, 340 US 147, the Supreme Court said: "The standard of patentability is a Constitutional standard; and the question of validity of a patent is a question of law. (Italics added). The Court fashioned in *Graver Tank & Mfg. Co. v. Linde Air Products Co.*, 336 US 271. . . . a rule for patent cases to the effect that this Court will not disturb a finding of invention made by two lower Courts, in absence of a further obvious and exceptional showing of error. That rule, imported from other fields, never had a place in patent law. Having served its purpose in *Graver Tank & Mfg. Co. vs. Linde Air Products Co.*, it is now in substance rejected. The Court now recognizes what has long been apparent in our cases; that it is the 'standard of invention' that controls. That is present in every case where the validity of a patent is in issue. It is that question which the Court must decide. No 'finding of fact' can be a substitute for it in any case. The question of invention goes back to the Constitutional standard in every case. We speak with final authority on this Constitutional issue as we do on many others.

"Courts should scrutinize combination patent claims with a care proportioned to the difficulty and improbability of finding invention in an assembly of old elements.

"This patentee has added nothing to the total stock of knowledge, but has merely brought together segments of prior art and claims them in congregation as a monopoly."

In a concurring opinion Douglas and Black, JJ., pointed out that the Constitution does not sanction the patenting of gadgets.

Under the current rule in the federal courts, a holding of invalidity ordinarily renders moot any question of infringement or as more accurately stated in relation to the case at bar, a question of equivalence.

But it seems desirable, nevertheless, to dispose completely and separately of all issues raised.

Defendant's "Michigan" device represents even less an advance over the prior art than plaintiff's. The teachings of Schwan and Moody are so obvious that little further need be said to dispose of the matter.

It is sufficient to point out that a dunderhead, oversizing ever so little the bearing holes in Moody's patent, or using Schwan's bearing as it is, would come up with precisely the device manufactured by Lear.

Plaintiff also claims as an equivalent the so-called Tippy Washer used by defendant in some of its models. It is as well known in the crafts as an ordinary

washer or a nut or bolt. It is a flat, metal washer with slight humps diametrically placed on the periphery. This permits small angular movements of a shoulder shaft. In defendant's application the washer was also shiftable in a radial direction. Clearly, neither plaintiff's claims nor his assertion of equivalency cover the Tippy Washer.

Since, as a matter of law, neither of defendant's devices could be the subject of a valid patent to anyone, it follows that plaintiff cannot claim them as equivalents under or as infringing his patent (even if valid).

The motion for judgment notwithstanding the verdict is granted in part, namely, the directed verdict for plaintiff for \$16,351.93 shall stand, but the balance of the verdict for plaintiff and against defendant is set aside and a judgment in lieu thereof is entered against plaintiff and for defendant.

Dated July 2nd, 1964.

/s/ Brodie Ahlport
Judge of the Superior Court

Ruling on Motion for a New Trial.

Defendant moved for a new trial in the alternative to an order for a judgment for defendant notwithstanding the verdict, and assigned as grounds therefor:

1. Irregularity in the proceedings on the part of plaintiff by which defendant was prevented from having a fair trial.
2. Excessive damages appearing to have been given under the influence of passion or prejudice.
3. Insufficiency of the evidence to justify the verdict, or that it is against law.
4. Errors in law, occurring at the trial and excepted to by the defendant.

Defendant's foregoing motion is granted on and as to each and all of the grounds specified. Further, the Court finds specifically that the evidence was insufficient to justify the verdict and that the verdict is against law, and grants a new trial on each of said grounds.

Dated July 2nd, 1964.

/s/ Brodie Ahlport

Judge of the Superior Court

Part of and attached to Ruling on Motion for Judgment notwithstanding the verdict and for new trial in *Adkins vs. Lear*, No. 737 267.

**Judgment for Defendant Notwithstanding
the Verdict.**

Entered, William G. Sharp, County Clerk, July 15,
1964. Book 5092, Page 018. G. C. Ericsson.

Filed July 10, 1964. William G. Sharp, County Clerk.

By D. Brownfield, Deputy.

Superior Court of the State of California, for the
County of Los Angeles.

John S. Adkins, Plaintiff, v. Lear, Incorporated, etc.,
et al., Defendants. No. 737 267.

The motion of defendant Lear, Incorporated for a
judgment for defendant notwithstanding the verdict
having heretofore been submitted is granted in part for
the reasons set forth in the "Ruling on Motions for
Judgment Notwithstanding the Verdict and in the alter-
native for a new trial" and:

1. That part of the judgment for plaintiff John S.
Adkins in the amount of \$888,122.56 entered on the
verdict on May 4, 1964 in Book 5033 at Page 47 is
set aside and vacated and judgment for defendant Lear,
Incorporated entered thereon notwithstanding the ver-
dict.

2. That part of the judgment for plaintiff in the
amount of \$16,351.93 entered on the directed verdict
on May 4, 1964 at said book and page is not affected
hereby in any way or at all and shall stand as entered.

Dated: July 10, 1964.

/s/ Brodie Ahlport

Judge of the Superior Court

[Seal]

Amendment to Judgment.

Superior Court of the State of California, for the County of Los Angeles.

John S. Adkins, Plaintiff, vs. Lear, Incorporated, et al., Defendants. No. 737-267.

Filed Dec. 30, 1964.

The judgment in the above entitled action entered on May 4, 1964, in Judgment Book 5033 at Page 47, is hereby amended as follows:

"At the outset of the trial, plaintiff John S. Adkins waived all ideas, discoveries and inventions under the second cause of action except for the idea, discovery and invention which is the subject matter of U.S. Patent No. 2,919,586. The Court then required plaintiff to elect between the first and second cause of action, and when plaintiff refused to do so, the Court then dismissed the second cause of action which, after the plaintiff's waiver, remained for the idea, discovery and invention which is the subject matter of U.S. Patent No. 2,919,586, and the same is hereby dismissed."

Dated: December 30, 1964.

Brodie Ahlport

Judge of the Superior Court

The Document to which this Certificate is attached is a full, true and correct copy of the original on file and of record in my office.

Attest February 16, 1965. WILLIAM G. SHARP
County Clerk and Clerk of the Superior Court of the State of California, in and for the County of Los Angeles.

By R. K. Pachy

Deputy

Opinion of the Ninth Circuit Court of Appeals.

United States Court of Appeals for the Ninth Circuit.

Lear Siegler, Inc., a corporation, *Appellant*, vs. John S. Adkins, *Appellee*. No. 18,634.

[April 6, 1964]

Appeal from the United States District Court for the Southern District of California, Central Division.

Before: Madden, Judge, Court of Claims, Browning and Duniway, Circuit Judges

This action was filed in the trial court on March 1, 1963. On April 9, 1963, pursuant to a motion made by the defendant Adkins, the court entered the following order:

"IT IS ORDERED that the Motion of the Defendant to Stay all Further Proceedings herein until final adjudication in that certain action now pending between the same parties hereto in the Superior Court of the County of Los Angeles, entitled JOHN S. ADKINS, plaintiff v. LEAR, INCORPORATED, ET AL., Defendants, being Case No. 737,267 therein, is hereby granted.

"The Court finds that this Order involves a controlling question of law as to which there is ground for difference of opinion and that an immediate appeal from this order may materially advance the ultimate termination of the litigation."

Plaintiff Lear Siegler, Inc. (Lear) appeals. Pursuant to the provisions of 28 U.S.C. §1292(b), it applied to us for permission to appeal, and on April 25 we granted leave to appeal for the purpose of permitting

argument before this court and review of the following questions:

"1. Whether an order for a stay is the type or kind of order which could or does involve a controlling question of law within the meaning of §1292(b) of Title 28 U.S.C.?"

"2. Whether, in case said question No. 1 is answered in the affirmative, the district court was in error or abused its discretion in granting the said order for stay?"

"3. Whether, in case it be determined that this appeal could not properly be maintained because of a negative answer to the first question above stated, this court may nevertheless consider and treat the application presented to us as an application for writ of mandamus. Cf. *Mach-Tronics*, No. 18,349, (April 1, 1963) [*Mach-Tronics, Inc. v. Zirpoli*, 316 F.2d 820]"

Lear contends that the order is appealable under both subsection (a) and (b) of 28 U.S.C. §1292, and further contends that if we should hold that it is not, we should treat the appeal as an application for a writ of mandamus and issue a writ directing the trial court to vacate its order and proceed with the action. Appellee asserts that the order is not appealable, but concurs with Lear in urging us, if we think it is not appealable, to treat the appeal as an application for a writ of mandamus. On the merits, Lear asserts that the district court abused its discretion in granting the order, and appellee asserts that the order falls within the court's discretion, which was not abused.

In its complaint in the district court, Lear alleges that appellee owns United States Letters Patent No.

2,919,586 issued on January 5, 1960 and entitled "Gyroscope." It also asserts that since that date Lear has been manufacturing various models of gyroscopes, and that appellee asserts that in doing so Lear is infringing the patent and has demanded that Lear pay him royalties. Lear then proceeds to list some 16 reasons why it claims that the patent is invalid and to state various reasons why the gyroscopes that it manufactures do not infringe the patent if it is valid. The prayer is for a judgment decreeing that the patent is invalid and void and is not infringed by Lear, and that in demanding royalties, appellee is misusing the patent. There is a further prayer for an injunction.

Jurisdiction is not based upon diversity of citizenship, but upon the patent laws of the United States and 28 U.S.C. §1338(a) which reads:

"The district court shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent and copyright cases."

The remedy sought is declaratory relief and an injunction under 28 U.S.C. §§2201 and 2202.

Appellee's motion for stay of all further proceedings was based upon the fact that, on January 5, 1960, appellee had filed in the Superior Court of the State of California, in and for the County of Los Angeles the action referred to in the district judge's order, quoted above. A copy of the complaint and of Lear's answer in the state court action are attached to the affidavit of appellee upon which the motion was based. The complaint's allegations are as follows: On December

29, 1951, appellee and Lear entered into a written agreement in connection with appellee's employment by Lear under which all new ideas, discoveries, inventions, etc. relating to "vertical gyroscopes" were to become the property of appellee and to be licensed to Lear. On September 15, 1955 the parties entered into a detailed written agreement, a copy of which is attached to the complaint, under which Lear agreed to pay appellee certain royalties. Both during and prior to appellee's employment by Lear, appellee conceived, created and devised the inventions, ideas and discoveries referred to in the agreement and made them available to Lear. Beginning on or about September 10, 1957, Lear breached the agreement in numerous respects, including principally failure to pay royalties. Under date of April 8, 1959 Lear purported to terminate the agreement, but is nevertheless continuing to manufacture the products for which royalties are to be paid and refusing to pay the royalties. Additional damages will be incurred in the future. There is a second cause of action in which it is charged in substance that during the period of appellee's employment with Lear, Lear became familiar with his discoveries and inventions, that there was a confidential relationship between the parties and that Lear has appropriated the inventions but refused to pay for them. General damages in the sum of \$100,000 are sought under the first cause of action, and in the sum of \$250,000 under the second cause of action, which also asks for \$250,000 exemplary damages.

The agreement of September 15, 1955 was not mentioned by Lear in the complaint filed by it in the district court. The agreement recites that appellee owns Letters Patent No. 2,542,975 relating to vertical gyro-

scopes and that he is also an owner of the inventions disclosed in a pending application for a United States patent on gyroscopes. Appellee's affidavit alleges that a patent, No. 2,919,586, was issued pursuant to this application on January 5, 1960. The agreement further recites that appellee is the owner of an invention relating to a "no gimbal lock feature for a gyroscope". The purpose of the agreement was to give Lear a non-exclusive license under patent No. 2,452,975 and an exclusive license under any and all applications for patents, and patents, claiming the subject matter referred to in the agreement but for which patents had not yet issued. The agreement grants such licenses, but, as to unissued patents, is limited to such claims or inventions as are patented or patentable by appellee. In the portion of the agreement that grants the licenses there appears this statement: "Lear shall have the right on 90 days' prior written notice to Adkins, to terminate any one or more of the licenses herein granted." There is also a provision permitting Lear to terminate if the patent office refused to issue a patent on the substantial claims of the application described in the agreement. In its answer filed in the state court Lear asserts that it did terminate the agreement on April 8, 1959, pursuant to these provisions.

1. *The order is appealable.*

We need not pass upon appellant's contention that the order is appealable under subsection (a)(1) of §1292 because we are of the opinion that it is appealable under subsection (b) of that section, which reads as follows:

"(b) When a district judge, in making in a civil action an order not otherwise appealable under this section, shall be of the opinion that such order in-

volves a controlling question of law as to which there is substantial ground for difference of opinion and that an immediate appeal from the order may materially advance the ultimate termination of the litigation, he shall so state in writing in such order. The Court of Appeals may thereupon, in its discretion, permit an appeal to be taken from such order, if application is made to it within ten days after the entry of the order. . . .”

We think the court's order, quoted above, is a sufficient compliance with the statute, which expressly covers interlocutory orders not otherwise appealable. The controlling question of law here involved is whether the district court was in error or abused its discretion in granting the stay. Our examination of the briefs and authorities leads us to the conclusion that the district judge was correct in his opinion that the question of law is one “as to which there is substantial ground for difference of opinion.” Certainly it cannot be said that he was wrong in thinking that an immediate appeal may materially advance the ultimate termination of the litigation. His order stays all further proceedings until final adjudication in the pending state court action. That action has been pending since January 1960 and had not yet gone to trial at the time that the district judge made his order, although appellee said that it was to go to trial soon. While the order remains in effect there will be no further proceedings in this action. On the other hand, if the appeal were successful, the district court would be compelled to proceed with the action. Thus a reversal might materially advance the ultimate termination of the litigation, (i.e., the action in the district court).

We think that the requirements of subsection (b) of §1292 are met.

We agree with those courts that have held that the procedure authorized in subsection (b) should be used sparingly and with discrimination.¹ But we also think that to allow the appeal in this case comports with that policy. It therefore is unnecessary for us to decide whether to treat the appeal as an application for a writ of mandamus.²

2. *The district court did not err or abuse its discretion in granting a stay.*

We have no doubt that the district court had jurisdiction of the action before it. Lear's purpose in filing the action was to test the validity of appellee's patent and to establish that what Lear is doing does not infringe the patent if it is valid. This is certainly a question arising "under any act of Congress relating to patents" within the meaning of 28 U.S.C. §1338. The fact that this is not the usual action to enforce a patent, charging infringement, does not mean that the court does not have jurisdiction. The Federal Declaratory Judgments Act (28 U.S.C. §§2201-2202) gives a new remedy, and there is no doubt that that remedy is applicable in patent cases. *Crowell v. Baker Oil Tools, Inc.*, 9 Cir., 1944, 143 F.2d 1003. This, however, does not dispose of the matter.

¹*Gottesman v. General Motors Corp.*, 2 Cir., 1959, 268 F.2d 194; *In re Heddendorf*, 1 Cir., 1959, 263 F.2d 887; *Melbert v. Bison Labs, Inc.*, 3 Cir. 1958, 260 F.2d 431.

²See: *Steccone v. Morse-Starrett Prods. Co.*, 9 Cir., 1951, 191 F.2d 197; *Shapiro v. Bonanza Hotel Co.*, 9 Cir., 1950, 185 F.2d 777.

The Federal Declaratory Judgments Act does not establish a new basis for jurisdiction in the federal courts; it merely establishes a new remedy, available in cases in which jurisdiction otherwise exists. *Skelly Oil Co. v. Phillips Petroleum Co.*, 1950, 339 U.S. 667, 671. Moreover, the existence of jurisdiction in an action for declaratory relief does not require that the court exercise it. It has a judicial discretion to decline to grant such relief. This has been the consistent position of the Supreme Court, the latest decision being *Public Affairs Press v. Rickover*, 1960, 369 U.S. 111. In that case in its per curiam opinion the Court said:

"The Declaratory Judgment Act was an authorization, not a command. It gave the federal courts competence to make a declaration of rights; it did not impose a duty to do so. *Brillhart v. Excess Ins. Co.*, 316 U.S. 491, 494, 499; *Great Lakes Co. v. Huffman*, 319 U.S. 293, 299-300; *Federation of Labor v. McAdory*, 325 U.S. 450, 462; *Mechling Barge Lines v. United States*, 368 U.S. 324, 331. Of course a District Court cannot decline to entertain such an action as a matter of whim or personal disinclination. 'A declaratory judgment, like other forms of equitable relief, should be granted only as a matter of judicial discretion, exercised in the public interest.' *Eccles v. Peoples Bank*, 333 U.S. 426, 431." (p. 112)

Other cases to the same effect are *Kerotest Mfg. Co. v. C-O-Two Fire Equip. Co.*, 1952, 342 U.S. 180, 183-5; *Public Serv. Comm'n v. Wycoff Co.*, 1952, 344 U.S. 237, 241, 243-4, 248.

Many of the Supreme Court decisions have involved the doctrine of abstention, and have refused to permit

the declaratory judgment remedy to be used as a means of circumventing the normal rule that state procedures relating to public matters such as taxation, the regulation of utilities, etc., must be followed before resort is had to the federal courts. Others, however, have applied these principles in private litigation; *Brillhart v. Excess Ins. Co.*, *supra* (involving state-federal conflict); *Kerotest Mfg. Co. v. C-O-Two Fire Equip. Co.*, *supra*, (involving conflict between two federal courts).

Long before the enactment of the Federal Declaratory Judgments Act the Supreme Court had established two correlative rules relating to jurisdiction in patent matters. The first is that a case is within the exclusive federal jurisdiction when it seeks to enforce a patent against an infringer, even though the complaint may show, in anticipation of a defense, the existence of an agreement between the parties relating to the patent. The second is that if the suit is to enforce or to revoke a patent licensing or other similar agreement, it "is not a suit under the patent laws of the United States, and cannot be maintained in a federal court as such." (*Luckett v. Delpark, Inc.*, 1926, 270 U.S. 496, 502, 510; see also *Becher v. Contoure Labs. Inc.*, 1929, 279 U.S. 388; *Pratt v. Paris Gas Light & Coke Co.*, 1897, 168 U.S. 255). It follows, and the Court has held, in *Pratt* and in *Becher*, that in an action in a state court based upon such an agreement, the state court can, where it becomes necessary for it to do so in order to decide the case before it, pass upon the meaning, the scope, the validity, or the infringement of the patent. As the Court said in *Pratt*: "Section 711³ does not

³Rev. Stat. §711: "... the jurisdiction vested in the courts of the United States, in the cases and proceedings hereinafter men-

deprive the state courts of the power to determine questions arising under the patent laws, but only of assuming jurisdiction of 'cases' arising under those laws." (168 U.S. at 259) We have referred to these principles in *H. J. Heinz Co. v. Owens*, 9 Cir., 1951, 189 F.2d 505, n. 5. See also *MacGregor v. Westinghouse Co.*, 1947, 329 U.S. 402, 407-8.

Until the enactment of the Federal Declaratory Judgments Act, a party charged with infringement of a patent usually could not initiate an action in a federal court, absent some other ground of federal jurisdiction. There then existed no remedy whereby he could obtain a judgment in the federal court. He could await, and then defend, the filing by the patent holder of a suit for infringement in the federal court. Or, if a contract existed between him and the patent holder, and he claimed, as Lear does here, that the patent was invalid, or that he was not using it, he might have a remedy, by way of enforcement of rescission or other relief, upon the contract in a state court.

The Federal Declaratory Judgments Act affords a new remedy, whereby one charged with infringement can initiate an action in the federal court. This creates possibilities of conflict between the federal court and a state court whenever there is a contract between the parties relating to the patent, and the patent holder has brought an action in the state court based upon the contract. It is not only in patent cases that the Federal Declaratory Judgments Act has opened up such possibilities of conflict, and it is in cases involving such

tioned, shall be exclusive of the courts of the several States . . . Fifth. Of all cases arising under the patent-right . . . laws of the United States."

possibilities of conflict that the courts have upheld the exercise by a federal court of its discretion to withhold declaratory judgment pending decision of the state court action.

The nature of the problem is well stated by Mr. Justice Jackson in *Public Serv. Comm'n v. Wycoff Co.*, *supra*:

"In this case, as in many actions for declaratory judgment, the realistic position of the parties is reversed. The plaintiff is seeking to establish a defense against a cause of action which the declaratory defendant may assert in the Utah courts. Respondent here has sought to ward off possible action by the petitioners by seeking a declaratory judgment to the effect that he will have a good defense when and if that cause of action is asserted. Where the complaint in an action for declaratory judgment seeks in essence to assert a defense to an impending or threatened state court action, it is the character of the threatened action, and not of the defense, which will determine whether there is federal-question jurisdiction in the District Court. If the cause of action, which the declaratory defendant threatens to assert, does not itself involve a claim under federal law, it is doubtful if a federal court may entertain an action for a declaratory judgment establishing a defense to that claim. This is dubious even though the declaratory complaint sets forth a claim of federal right, if that right is in reality in the nature of a defense to a threatened cause of action. Federal courts will not seize litigations from state courts merely because one, normally a defendant,

goes to federal court to begin his federal-law defense before the state court begins the case under state law. *Tennessee v. Union & Planters' Bank*, 152 U.S. 454; *The Fair v. Kohler Die & Specialty Co.*, 228 U.S. 22; *Taylor v. Anderson*, 234 U.S. 74."

Brillhart v. Excess Ins. Co., *supra*, was an action in which jurisdiction was founded upon diversity of citizenship, brought by an insurance company to determine whether the company was liable to certain parties by reason of certain matters pending in a state court. The Supreme Court held that, if the question could be determined in the state litigation, the District Court had discretion to withhold declaratory relief. *Kerotest Mfg. Co. v. C-O-Two Fire Equip. Co.*, *supra*, involved the staying of a declaratory judgment action in one district court, because of the pendency of an infringement suit in another. In affirming, Mr. Justice Frankfurter said:

"The manufacturer who is charged with infringing a patent cannot stretch the Federal Declaratory Judgments Act to give him a paramount right to choose the forum for trying out questions of infringement and validity. He is given an equal start in the race to the courthouse, not a head-start." (342 U.S. at 183)

We think that these principles are applicable here. Lear asserts that questions as to the validity or infringement of appellee's patent are within the exclusive jurisdiction of the federal courts and therefore could not be passed upon in the state litigation. As we have already shown, the law is to the contrary.

Lear also asserts that by reason of its termination of the licensing agreement between it and appellee pursuant to the terms of that agreement, appellee cannot require it to pay royalties under the terms of the agreement.⁴ It further claims that, by reason of this termination, the normal rule under which it would be estopped to deny the validity of the patent does not apply.⁵ It says, too, that under the terms of the agreement it agreed to accept the license only for those inventions that proved to be within the terms of appellee's patent application and actually patentable, and that the products that it makes do not fall within these terms. As we see it, the difficulty with all of these contentions of Lear is that they are precisely the issues which are pending in the state court, and that the state court will, if necessary, decide them.⁶

It seems to us quite clear that what Lear is trying to do flies in the face of the principles discussed above and applied by us in the *H. J. Heinz Company* case, *supra*. As we there said:

"Procedurally, this is also a suit for a declaratory judgment as to the scope, validity and infringement of a patent. But in essential character and purpose it is something else.

"An outstanding decree of a state court prohibits Heinz from making or using vinegar genera-

⁴Compare *Miehle Printing Press & Mfg. Co. v. Publication Corporation*, 7 Cir., 1948, 166 F.2d 615 with *Seagren v. Smith*, Cal. D.C.A., 1944, 147 P.2d 682. We express no opinion as to the validity of Lear's assertion.

⁵Compare *Bowers Manufacturing Co. v. All-Steel Equip. Inc.*, 9 Cir., 1960, 275 F.2d 809 with *Stimpson Computing Scale Co. v. W. F. Stimpson Co.*, 6 Cir., 1900, 104 Fed. 893. Again, we express no opinion as to the validity of Lear's assertion.

⁶See *Rogers v. Hensley*, Cal. D.C.A., 1961, 14 Cal. Rptr. 870.

tors which are covered by the Owens patent. The present complaint admits on its face that the only controversy between the parties is that created by the action of Owens in petitioning the state court to adjudge Heinze in contempt of that decree. And, acting upon that petition before the complaint in this suit was filed, the state court had ordered Heinz to show cause why it should not be adjudged in contempt. Apparently, that matter now awaits final disposition on the merits of the contempt charge."

...

"In these circumstances, we think that both the chronology and the subject matter of the litigation in state and federal courts require the conclusion that the present suit is a device to bring within federal jurisdiction the very controversy, litigated and in litigation in the state court." (189 F.2d at 508)

In that decision we also quoted the Court of Appeals for the 7th Circuit in *American Auto. Ins. Co. v. Freundt*, 1939, 103 F.2d 613, 617 as follows:

"The wholesome purposes of declaratory acts would be aborted by its use as an instrument of procedural fencing either to secure delay or to choose a forum. It was not intended by the act to enable a party to obtain a change of tribunal and thus accomplish in a particular case what could not be accomplished under the removal act, and such would be the result in the instant case."

Compare *Shell Oil Co. v. Frusetta*, 9 Cir., 1961, 290 F.2d 689.

The authorities upon which Lear relies are not in point. They involve actions in which the district court is without discretion to decline to exercise its jurisdiction, such as actions under the antitrust laws (*Lyons v. Westinghouse Elec. Corp.*, 2 Cir., 1955, 222 F.2d 184; *Mach-Tronics, Inc. v. Zirpoli*, 9 Cir., 1963, 316 F.2d 820), or the Trading with the Enemy Act (*Propper v. Clark*, 1949, 337 U.S. 472).

We hold that in this declaratory judgment action the district court had discretion to grant the stay that it granted and did not abuse its discretion in so doing. Affirmed.

APPENDIX B.

Provisions of the Constitution of the United States.

The Constitution of the United States of America,
Article I, § 8,

Clause 8 [The Congress shall have Power . . .]
to promote the Progress of Science and useful Arts,
by securing for limited Times to Authors and In-
ventors the exclusive Right to their respective Writ-
ings and Discoveries.

Statutory Provisions Title 35 of the United States Code.

§ 101. *Inventions patentable*

Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

§102. *Conditions for patentability; novelty and loss of right to patent*

A person shall be entitled to a patent unless—

(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or

(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, or

§ 103. *Conditions for patentability; non-obvious subject matter.*

A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made.

§ 115. *Oath of applicant*

The applicant shall make oath that he believes himself to be the original and first inventor of the process, machine, manufacture, or composition of matter, or improvement thereof, for which he solicits a patent; and shall state of what country he is a citizen. Such oath may be made before any person within the United States authorized by law to administer oaths, or, when made in a foreign country, before any diplomatic or consular officer of the United States authorized to administer oaths, or before any officer having an official seal and authorized to administer oaths in the foreign country in which the applicant may be, whose authority shall be proved by certificate of a diplomatic or consular officer of the United States, and such oath shall be valid if it complies with the laws of the state or country where made. When the application is made as provided in this title by a person other than the inventor, the oath may be so varied in form that it can be made by him.

§ 132. *Notice of rejection; reexamination*

Whenever, on examination, any claim for a patent is rejected, or any objection or requirement made, the Commissioner shall notify the applicant thereof, stating the reasons for such rejection, or objection or requirement, together with such information and references as may be useful in judging of the propriety of continuing the prosecution of his application; and if after receiving such notice, the applicant persists in his claim for a patent, with or without amendment, the application shall be reexamined. No amendment shall introduce new matter into the disclosure of the invention.

§ 154 *Contents and term of patent*

Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, subject to the payment of issue fees as provided for in this title, of the right to exclude others from making, using, or selling the invention throughout the United States, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof.

§ 282. *Presumption of validity; defenses*

A patent shall be presumed valid. Each claim of a patent (whether in independent or dependent form) shall be presumed valid independently of the validity of other claims; dependent claims shall be presumed valid even though dependent upon an invalid claim. The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting it.

The following shall be defenses in any action involving the validity or infringement of a patent and shall be pleaded:

(1) Noninfringement, absence of liability for infringement, or unenforceability,

(2) Invalidity of the patent or any claim in suit on any ground specified in part II of this title as a condition for patentability,

(3) Invalidity of the patent or any claim in suit for failure to comply with any requirement of sections 112 or 251 of this title,

(4) Any other fact or act made a defense by this title.

In actions involving the validity or infringement of a patent the party asserting invalidity or noninfringement shall give notice in the pleadings or otherwise in writing to the adverse party at least thirty days before the trial, of the country, number, date, and name of the patentee of any patent, the title, date, and page numbers of any publication to be relied upon as anticipation of the patent in suit or, except in actions in the United States Court of Claims, as showing the state of the art, and the name and address of any person who may be relied upon as the prior inventor or as having prior knowledge of or as having previously used or offered for sale the invention of the patent in suit. In the absence of such notice proof of the said matters may not be made at the trial except on such terms as the court requires.

28 U.S.C. 1498. *Patent Cases.* (a) Whenever an invention described in and covered by a patent of the United States is used or manufactured by or for the United States without license of the owner thereof or lawful

right to use or manufacture the same, the owner's remedy shall be by action against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture.

For the purposes of this section, the use or manufacture of an invention described in, and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

The court shall not award compensation under this section if the claim is based on the use or manufacture by or for the United States of any article owned, leased, used by, or in the possession of the United States prior to July 1, 1918.

A Government employee shall have the right to bring suit against the Government under this section except where he was in a position to order, influence, or induce use of the invention by the Government. This section shall not confer a right of action on any patentee or any assignee of such patentee with respect to any invention discovered or invented by a person while in the employment or service of the United States, where the invention was related to the official functions of the employee, in cases in which such functions included research and development, or in the making of which Government time, materials or facilities were used.

15 U.S.C. § 1

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal:

APPENDIX C.

Agreement.

THIS AGREEMENT, made and entered into this 15th day of Sept. 1955, by and between JOHN S. ADKINS of Santa Monica, California, hereinafter referred to as "Adkins" and LEAR, INCORPORATED, a corporation of Illinois, hereinafter referred to as "Lear."

WITNESSETH:

(A) WHEREAS, Adkins represents and warrants that he owns United States Letters Patent No. 2,542,975, issued to him on February 27, 1951, for an Erecting Mechanism for Reducing Turn Errors in Vertical Gyroscopes, subject to a reservation that the invention described therein may be manufactured and used by or for the Government of the United States for governmental purposes without the payment of any royalty thereon, a copy of which Letters Patent is hereto attached and hereafter referred to as Exhibit "A" and incorporated herein as a part hereof; and Adkins represents that there are no outstanding licenses or agreements that prevent him from entering into a license agreement with respect to said Patent and the inventions covered therein, all as hereafter set forth; and

(B) WHEREAS, Adkins represents and warrants that to the best of his knowledge and belief he is the owner of the inventions covering the substantial claims as disclosed or intended to be disclosed in the Application for U. S. Patent on gyroscopes attached hereto and hereafter referred to as Exhibit "B" and incorporated herein as a part hereof, which application was filed on February 15, 1954, and is presently pending in the United States Patent Office and that there are no licenses or agreements outstanding which prevent him

from granting unto Lear an exclusive license respecting said inventions and products embodying said inventions, in accordance with the further provisions hereof, and

(C) WHEREAS, Adkins represents and warrants that to the best of his knowledge and belief he is the owner of the inventions disclosed or intended to be disclosed for a no-gimbal lock feature for a gyroscope as set forth in Disclosure I attached hereto and hereafter referred to as Exhibit "C" and incorporated herein as a part hereof, and that there are no licenses or agreements outstanding which prevent him from granting unto Lear an exclusive license respecting said inventions and products embodying said inventions, in accordance with the further provisions hereof; and

(D) WHEREAS, Lear is to acquire a non-exclusive license under said Exhibit "A" hereof and an exclusive license under any and all applications for patents and patents claiming the subject matter referred to in Exhibits "B" and "C" hereof, to manufacture, and sell products embodying the respective inventions of said Exhibits "A", "B" and "C".

NOW, THEREFORE, in consideration of the foregoing and \$500.00 in hand paid, receipt whereof is hereby acknowledged, and of the covenants and conditions hereinafter contained, it is hereby agreed by and between the parties hereto as follows:

1. DEFINITIONS:

(a) The phrase Exhibit "A", as used in this agreement shall be deemed to refer to and include United States Letters Patent No. 2,542,975 and all renewals, extensions and reissues thereof, issued on the subject

matter of said letters patent and all improvements thereof.

(b) The phrase Exhibit "B" as used in this Agreement shall be deemed to refer to and include the application for United States Letters Patent filed on February 15, 1954, attached hereto, and all continuations and divisions thereof and all patents issued or issuing thereon to Adkins with respect to the inventions disclosed or intended to be disclosed therein and all improvements thereof, and all renewals, extensions, reissues of any patents issued pursuant thereto.

(c) The phrase Exhibit "C" as used in this Agreement shall be deemed to refer to and include Disclosure I attached hereto and all applications for United States Letters Patent filed with respect to the inventions disclosed or intended to be disclosed therein, and all improvements thereon and all continuations and divisions of all such applications and all patents issued or issuing with respect thereto and all renewals, extensions, and reissues thereof.

(d) The Term "said inventions" as used in this Agreement shall include (1) all claims and inventions disclosed or claimed in said Exhibit "A", and (2) all claims and inventions disclosed or intended to be disclosed in said Exhibit "B" and (3) all claims and inventions disclosed or intended to be disclosed in said Exhibit "C", but only to the extent that such claims or inventions mentioned in said Exhibits are patented or patentable by Adkins.

(e) The term "gyro assembly" as used herein is defined as the cased instrument which intimately contains the gyro structure and other appurtenances necessary

for proper operation of the gyro structure, all of which are included within the gyro assembly case. The term "gyro structure" as used herein is defined as the high-speed gyro rotor, gimbals, frame and attachments thereto.

(f) The term "gyro system" as used herein is defined as the "gyro assembly" and components or accessories necessary to produce earth and/or aircraft gyro signals for use by other equipment such as indicators, autopilots, bombing systems, fire control systems, etc., which such other equipment such as indicators, autopilots, bombing systems, fire control systems, so using the gyro system signals shall not be considered as part of the gyro system.

(g) In determining whether any particular component or accessory constitutes a part of the gyro assembly or gyro system, the test shall be to ascertain whether removal of the particular component or accessory affects the accuracy of the gyro assembly or gyro system signals. If removal does affect the accuracy of the gyro assembly or gyro system signal, the component or accessory removed shall be deemed a part of the gyro assembly or the gyro system, but if removal does not affect the accuracy of such signal, then it shall not be deemed a part of the gyro assembly or gyro system.

(h) Whenever in this Agreement the words "claim", "claims", "invention", or "inventions" are used, in accordance with the context of the terms of the Agreement, the plural shall apply to the singular or the singular shall apply to the plural.

2. GRANT.

(a) Subject to the provisions for termination hereinafter set forth, Adkins hereby gives and grants unto

NCR



**MICROCARD[®]
EDITIONS, INC.**

PUBLISHERS OF ORIGINAL AND REPRINT MATERIALS ON MICROCARDS
901 TWENTY-SIXTH STREET, N.W., WASHINGTON 7, D. C. FEDERAL 3-6393

CARD

14

Lear (1) a non-exclusive right and license under all the claims of said Exhibit "A" and (2) an exclusive license under all the claims of said Exhibits "B" and (3) an exclusive license under all the claims of said Exhibit "C"; to manufacture or have manufactured for it, use and sell products and parts and components thereof (including gyros, gyro systems, gyro apparatus and gyro mechanisms) covered by or containing one or more or all of the inventions and any patents issued or hereafter issued thereon and any divisions, continuations or reissues thereof, and all modifications and improvements thereof, throughout the United States and all foreign countries; it is understood, however, that whenever the word "claims" is used in this paragraph it shall mean the claims in the respective Exhibits which have been patented or will be patentable by Adkins. Lear shall have the right on ninety days' prior written notice to Adkins, to terminate any one or more of the licenses herein granted.

(b) Lear at its opinion and expense may, for and in the name of Adkins, file applications for patents in any foreign countries for any of the inventions licensed herein except those under Exhibit "A". In the event Adkins desires to have an application for a patent respecting such inventions filed in any designated foreign country he shall so notify Lear in writing. Lear shall thereupon have ninety days from and after receipt of such notice, to determine whether it wishes to file such application in the country designated; and if within said period it so files at its expense, it shall retain and have the exclusive right and license to use said inventions in the manufacture and sale of products embodying such inventions in such foreign country. However, if it elects not to so file an application and there-

after Adkins files an application in such foreign country at his expense, then from and after the date of the issuance of the patent, Lear shall have a non-exclusive right and license to use the inventions described in said patent so issued, in the manufacture and sale of products embodying such inventions in such foreign country.

(c) This agreement shall continue in force and effect until the expiration of the last to expire of any patent now or hereafter issued and related to the subject matter of this agreement, including all continuations, renewals, extensions and reissues thereof, unless terminated sooner by act of the parties pursuant to the provisions hereof.

3. ROYALTIES.

(a) While one or more of the licenses granted under this Agreement is in effect, Lear agrees to pay Adkins with respect to products incorporating said inventions manufactured and sold under those licenses that are in effect, royalties of $1\frac{1}{4}\%$ based on net sales prices as hereinafter in sub-paragraphs (c), (d) and (j) defined, received by Lear for said products, it being understood that said rate shall be paid only on products incorporating one or more or all of said inventions.

(b) No royalties shall be computed or paid on account of the manufacture by or for or sale to, on behalf of, or for the use of the U. S. Government, of products which incorporate only the inventions disclosed in or covered by Exhibit "A".

(c) Net sales prices on which royalties are payable shall be the final sales price established for the products sold after price adjustment or price redetermina-

tion whether voluntarily or by contract. In the case of cost reimbursement contracts, the final price shall be the costs finally allowed and paid to Lear. In the event the final price is higher than the initial or interim price, Lear will pay to Adkins the additional royalties due him upon determination of such final higher price. In the event the final price is lower than the initial or interim price, Lear shall deduct from future royalties thereafter payable to Adkins, an amount equal to 25% of each future royalty payment subsequently becoming due, until it shall have received the full amount of the excess royalties theretofore paid to Adkins.

(d) Net sales prices with respect to the sales of products incorporating inventions licensed hereunder and also containing other assemblies or components in addition thereto which do not incorporate the said inventions, shall for the purposes of determining royalties payable to Adkins, be the price established in each such contract for the "gyro assembly" or "gyro system" as hereinbefore defined which incorporates the inventions herein licensed. Where no separate price is established in any such contract for the "gyro assembly" or "gyro system", net sales price of such "gyro assembly" or "gyro system" shall be the price charged by Lear, under each such contract, for a spare "gyro assembly" or "gyro system" which incorporates the inventions herein licensed. Where there is no price established for such gyro assembly or gyro system in any such contract, either initially or as a spare part, then the net sales price of the gyro assembly or gyro system on which royalties are paid, shall be that part of the price of the entire product, which the cost of manufacture of the gyro assembly or gyro system incorporating the

inventions, bears to the cost of manufacture of the entire product.

The following specific examples will serve to illustrate the method of determining which items shall be included in computing net sales price on which royalties are based:

(1) In a VGI utilizing any one or more of the inventions, the royalty shall be computed on the net sales price of the "gyro system" which is the Type K-4 control. The indicator is not included in computation of net sales price since if the indicator is removed, the accuracy of the gyro system signals would not be affected.

(2) In compass systems, such as the Lear Type 1284, utilizing any one or more of the inventions, the royalty shall be computed on the net sales price of the complete "compass system", except for the earth's magnetic detector and the indicators, since if the earth's magnetic detector and indicator are removed, the accuracy of the gyro assembly signals as such would not be affected.

(3) In indicator systems such as the NAFLI, utilizing any one or more of the inventions, the royalty shall be computed on the net sales price of the "gyro assembly." The basic purpose of the NAFLI system is to provide indication, and the system other than the "gyro assembly" will not be included in the amount on which the royalty is computed, since if all components of the NAFLI system other than the "gyro assembly" are removed, the accuracy of the "gyro assembly" signals as such would not be affected.

(4) In auto pilots such as the Type F-5, utilizing any one or more of the inventions, the royalty shall

be computed on the net sales price of the "gyro assembly." The basic purpose of the F-5 auto pilot is to control the aircraft, and the system other than the "gyro assembly" will not be included in the amount on which the royalty is computed, since if all components of the F-5 auto pilot other than the "gyro assembly" are removed, the accuracy of the "gyro assembly" signals as such would not be affected.

(e) It is specifically recognized and agreed by the parties hereto that prior to January 1, 1955, no sales were made by Lear of any products under the licenses herein granted or subject to royalty as herein provided. Lear shall submit to Adkins a full and correct statement of the net sales prices received on all sales by it of products subject to royalty under the licenses herein granted which are then in effect during each quarter-annual period beginning January 1, 1955. For the purposes of this Agreement, quarter-annual periods are defined as follows: the first quarter-annual period shall be the months of January, February, March; the second shall be April, May, and June; the third, July, August, and September; and the fourth, October, November, and December. Lear shall submit the said statement for each quarter-annual period within sixty days after the end of each quarterly period, that is, within sixty days after March 31st, June 30th, September 30th and December 31st of each year, and each statement submitted shall be accompanied by payment in full for royalties shown due. The first such statement to be made under this Agreement shall be submitted to Adkins within sixty days after Sept. 15, 1955, covering the period from January 1, 1955, through Sept. 30, 1955.

(f) If any products subject to royalty are sold by Lear to any person, firm, or corporation in which Lear has any direct or indirect pecuniary interest in excess of 50% of the total capital and surplus of such person, firm, or corporation, and said products shall be resold by said purchaser at a price greater than Lear's sales price, then in the computation of royalties due hereunder, the net resale price received by said purchaser on resales of said products shall be taken as Lear's net sales prices received for said products.

(g) Unless this Agreement is sooner terminated as herein provided, Adkins shall be entitled to receive a minimum royalty in the sum of \$250.00 upon execution hereof, and on January 1, 1956, and a minimum royalty in the sum of \$500.00 on January 1, 1957, and on January 1st of each year thereafter that this Agreement is in effect, on account of each of the following groups of products manufactured and sold by Lear, (provided the Licenses as to Exhibits A, B, and C, respectively, are in force and effect), (a) embodying the inventions of Exhibit "A"; (b) embodying the inventions disclosed or intended to be disclosed in Exhibit "B" and (c) embodying the inventions disclosed or intended to be disclosed in Exhibit "C". The payments made under this paragraph shall be applied as a credit in reduction of the royalty payments due Adkins under this Paragraph 3, for such year. If said minimum royalties are not paid, then the only right of Adkins shall be to cancel, such one of the Licenses herein granted, for which minimum royalty payments as above provided for have not been paid by Lear. After receipt of notice of cancellation of such License, Lear shall have no further right to manufacture products incorporating the inventions disclosed under such cancelled License,

except that Lear may for a period of ninety days from and after such notice of cancellation complete the manufacture and sell any of such products then in process or on hand, and Adkins shall receive his royalty on all of such products as in Paragraph 3 hereof provided. Nothing herein set forth shall be deemed to obligate Lear to manufacture, produce or sell any products embodying inventions described and set forth in Exhibits "A", "B" and "C" hereof. If during any one full year beginning after January 1, 1959, the total annual net sales prices of products sold embodying said inventions as herein defined, either separately or in combination, do not exceed \$35,000.00 under the licenses herein granted, then unless such failure is the result of war, act of God, strikes, national emergency, governmental rules or regulations or any other cause beyond Lear's control, said licenses with respect to inventions contained in Exhibits "B" and "C" shall thereafter become non-exclusive licenses instead of exclusive licenses as herein granted.

(h) If under the terms hereof Lear cancels its license under the inventions contained in Exhibit "C", then the license granted with respect to the inventions contained in Exhibit "B" shall continue as an exclusive license. In such event Adkins shall thereafter have the right to use and to license others to use, the inventions contained in said Exhibit "B" but only in products which also embody in combination the inventions disclosed in Exhibit "C". Adkins, however, shall have no right to use or to license others to use the inventions contained in Exhibit "B" in the manufacture or sale of any products unless such products also incorporate the inventions disclosed in Exhibit "C".

(j) The term "net sales price" wherever used herein shall not include the amount of any tax, insurance, duty, packing, shipping, or crating charge or any other similar items, which are separately indicated and charged in the agreement or invoice, or of which written notice is given to Adkins.

4. BOOKS AND REPORTS

Lear agrees to keep accurate and complete books and reports showing in detail all said products made and sold by it under the licenses herein granted, and agrees that said books and records relating only to sales of said products shall be open for inspection, subject to any security regulations of the United States Government, by Adkins or a Certified Public Accountant selected by him, during normal business hours, but no oftener than twice a year. In the event that any royalty payment is based upon Lear's cost of manufacture, as in Paragraph 3(d) hereof provided, then in such event Adkins shall have the right, subject to any security regulations of the United States Government, to be exercised only once with respect to any such royalty computation, to inspect Lear's books and records relating only to the cost of manufacture of that specific product, the royalty for which was computed upon Lear's manufacturing cost. Adkins agrees that neither he nor such Certified Public Accountant selected by him will disclose to any person, firm, company, or corporation any information or knowledge which may be obtained from or disclosed in any books and records of Lear, and Adkins further agrees that he and such Certified Public Accountant will treat all of such information and knowledge as confidential. Lear agrees that, on or before the dates above specified for payment of royalties to Adkins, it

will deliver to Adkins complete reports showing in detail all items covered by said royalty payments and how the royalties in each case have been computed.

5. SUITS FOR INFRINGEMENT.

In the event that any third party or parties shall institute suit against Lear asserting that the manufacture, sale or use by Lear of products under the licenses herein granted, constitutes an infringement of a patent or patents owned by the plaintiff or plaintiffs in such suit, then Lear shall place in escrow all further royalty payments due or payable to Adkins (including Minimum Royalty Payments) under this Agreement with respect to the license involved, from the time of the institution of such suit until such suit shall be finally terminated. Lear shall have the right but shall not be obligated to defend such suit; and if Lear successfully defends such suit, it shall bear the cost of such defense, but if Lear unsuccessfully defends the suit, then Lear shall be reimbursed from the escrow account by an amount equal to the costs, attorneys, and other fees, judgments and other expenses Lear incurred due to such suit, less the amount it may be awarded and collect from the said plaintiff or plaintiffs, and any residue from the escrow account shall then be paid to Adkins. However, Adkins shall not be required to reimburse Lear beyond the amount of the escrow account at the suit termination for any such costs, fees, and other expenses.

6. INVALID PATENTS

In the event that patent No. 2,542,975, attached hereto as Exhibit "A" is held invalid or in the event the U.S. Patent Office refuses to issue a patent on the substantial claims of the application attached as Ex-

hibit "B", or if such a patent so issued is subsequently held invalid, or in the event an application for U. S. Patent is filed on the inventions contained in Exhibit "C" and the United States Patent Office refuses to issue a patent on the substantial claims thereof or if such a patent so issued is subsequently held invalid, then in any of such events Lear at its option shall have the right forthwith to terminate the specific license so affected or to terminate this entire Agreement and no further royalties shall thereupon be payable under the license so terminated or under this Agreement if Lear shall have elected to terminate this Agreement in its entirety.

7. *MARKING.*

Lear agrees to place the required statutory patent notice upon each and every one of said products licensed hereunder.

8. *BANKRUPTCY*

If Lear shall be declared a bankrupt or insolvent, or make any assignment for the benefit of creditors, or have a receiver appointed, and if such receiver is not removed within 120 days, then such act or event may, at the option of Adkins, be considered as a material breach of this Agreement, and said agreement may thereafter be terminated by Adkins forthwith.

9. *PROSECUTION OF PATENT APPLICATIONS.*

As part of the consideration for the licenses herein granted, Lear agrees to pay to Adkins \$540.00 on execution hereof, to reimburse him for patent costs already incurred by him, and Lear further agrees to pay all costs hereafter incurred for preparation and prosecu-

tion of all applications for patents on inventions set forth and disclosed in Exhibits "B" and "C" hereof, provided Adkins has secured the prior written approval of Lear therefor. Adkins agrees with due diligence to file and prosecute applications for United States letters patent covering all said inventions and shall submit all such applications to Lear for approval prior to the filing thereof. Adkins further agrees that if Lear desires to prepare said patent applications then at Lear's request he will assist Lear in the preparation thereof and will cooperate fully in all matters relating thereto with Lear or its patent counsel and will execute all papers and take all rightful oaths and Adkins shall immediately upon receipt by him, furnish to Lear a copy of each action taken by the U.S. Patent Office with respect to such applications and to consult with Lear before taking any action with respect thereto, and also to notify Lear when a patent or patents have issued.

10. TERMINATION

(a) If Lear shall default in the payment of any minimum or earned royalties hereunder or in the furnishing of any reports required by this Agreement, and shall not cure such default within thirty days after written notice thereof has been given to Lear, or shall breach any other terms of this Agreement and shall not cure such other breach within sixty days after written notice thereof has been given to Lear, then Adkins may, by written notice, terminate this Agreement forthwith after the expiration of said respective thirty-day or sixty-day periods, if any such default is not cured.

(b) Failure to terminate this Agreement for any breach shall not be construed as a waiver of the right so to do for any continuation or repetition of said

breach, or any subsequent breach of the same or dissimilar nature.

11. EMPLOYMENT

It is understood that Adkins has been employed by Lear prior to this date and will continue in its employ after this date pursuant to an employment agreement entered into simultaneously herewith. It is further understood that if hereafter the employment of Adkins shall terminate for any reason whatsoever then in such event this License Agreement shall continue in full force and effect in accordance with all of the terms hereof and subject only to the following additional conditions:

Within fifteen (15) days after the expiration of six full months from the date of termination of the employment of Adkins, Lear shall notify Adkins in writing, that it exercises one of the following four options:

A. To agree that Adkins shall be entitled to receive a minimum royalty at the rate of \$15,000.00 annually beginning after the expiration of said six full months from the date of termination of the employment of Adkins, in which event the license herein granted with respect to Exhibit "A" shall continue as a non-exclusive license, and the licenses herein granted with respect to Exhibits "B" and "C", shall continue as exclusive licenses with Lear.

B. To agree that Adkins shall be entitled to receive a minimum royalty at the rate of \$10,000.00 annually beginning after the expiration of six full months from the date of termination of the employment of Adkins, in which event the license herein granted with respect to Exhibit "B" shall continue as an exclusive license

with Lear, and the licenses granted with respect to Exhibits "A" and "C" shall continue as non-exclusive licenses with Lear.

C. To agree that Adkins shall be entitled to receive a minimum royalty at the rate of \$5,000 annually, beginning after the expiration of six full months from the date of termination of the employment of Adkins; in which event the license herein granted with respect to Exhibit "C" shall continue as an exclusive license with Lear, and the licenses granted with respect to Exhibits "A" and "B" shall continue as non-exclusive licenses with Lear.

D. To agree that Adkins shall not be entitled to receive any minimum royalty (except only that provided by paragraph 3 (g)) but rather only actual earned royalties, beginning after the expiration of six full months from the date of termination of the employment of Adkins, in which event the licenses herein granted with respect to Exhibits "A", "B", and "C" shall continue as non-exclusive licenses with Lear.

If Lear exercises option A or option B or option C above, then in such event, if the earned royalties payable for any quarter-annual period thereafter (as the quarter-annual periods are defined in Paragraph 3 hereof) are less than $\frac{1}{4}$ of the annual minimum royalties specified in the option which Lear exercises, Lear shall pay the difference between the earned royalties for such quarter-annual period and the amount equal to one-fourth of the said annual minimum royalty; provided however, that excess earned royalties in any previous quarter-annual period shall be applied and carried forward to succeeding quarter-annual periods, and provided further that in determining royalties payable to Adkins

for the final October, November, and December quarter-annual period of each calendar year, a readjustment or recomputation shall be made, so that Lear shall receive full credit against the minimum annual royalties for all amounts theretofore paid by Lear in such calendar year, either to cover earned royalties or to cover deficits in royalties for prior quarter-annual periods in such calendar year; and if royalties actually earned by Adkins during any such calendar year exceed the annual minimum royalties, then any excess payments made by Lear during such year, not representing royalties actually earned by Adkins, shall be carried forward and be credited against royalties becoming due for subsequent quarter-annual periods.

In the event Lear shall exercise Option A, then within ten days after the end of any quarter-annual period thereafter, Lear shall have the further right and option to notify Adkins, that it cancels the exercise of option A and in lieu thereof, adopts and exercises option B or option C or option D above, beginning with the quarter in which such notice is given. It is further understood that if option B is at any time exercised by Lear, then within ten days after the end of any quarter-annual period thereafter, Lear can by notice in writing to Adkins, cancel the exercise of option B and in lieu thereof adopt and exercise option C or option D beginning with the quarter in which such notice is given. It is further understood that if option C is at any time exercised by Lear, then within ten days after the end of any quarter-annual period thereafter Lear can by notice in writing to Adkins, cancel the exercise of said option C and in lieu thereof adopt and exercise option D beginning with the quarter in which said notice is

given. If, as a result of the exercise of any option by Lear, any license becomes non-exclusive, then in such event Lear cannot thereafter exercise any option which will change such non-exclusive license so that the same would become exclusive, except upon securing the consent of Adkins.

In the event Lear fails to notify Adkins in writing that it exercises one of said options A, B, C or D within fifteen (15) days after expiration, of six full months from the date of the termination of the employment of Adkins, then it shall be deemed that option D has been exercised by Lear.

12. PATENT INFRINGEMENT SUIT.

In case Adkins and Lear shall agree that suit shall be commenced against any third party for infringement of any patents, claims or inventions embodied under this Agreement, then all costs and expenses, including counsel fees, incurred in prosecuting such suit shall be borne one-half by each. If such suit shall result in a final award of damages, the net proceeds received as a result of said suit after deducting all costs and other expenses, including counsel fees (for which Adkins and Lear shall be reimbursed) incurred in prosecuting such suit, shall be divided one-half to Lear and one-half to Adkins.

13. PREVIOUS AGREEMENT.

This Agreement cancels and supersedes the Agreement between the parties hereto dated December 29, 1951, and any and all other agreements between the parties hereto, entered into prior to the date hereof and relating to any inventions, discoveries or patents of Adkins or otherwise.

14. NOTICES.

Any notice hereunder must be in writing and shall be given by registered mail, postage prepaid. For the purposes of notices under this Agreement the address of Adkins shall be:

468 Twenty-first Street
Santa Monica, California

and the address of Lear shall be:

3171 South Bundy Drive
Santa Monica, California
Attn: Richard M. Mock, President

Either party may, at any time, by thirty days' notice in writing, to the other, designate any other address in place of those specified above.

15. SUCCESSION.

Neither this Agreement nor any of its benefits nor the licenses, rights, or privileges herein granted shall be directly or indirectly, by operation of law or otherwise, assigned, transferred, divided, or shared by Lear without the prior written consent of Adkins. However, this Agreement may be assigned or transferred by Lear to any subsidiary or to any corporation with whom Lear may merge or consolidate or which acquires the major assets or instrument product business of Lear; and this Agreement may be assigned or transferred by Adkins and his heirs and assigns.

16. APPLICABLE LAW.

It is agreed that the laws and decisions of the State of California, wherever applicable, shall be followed in interpreting and deciding any questions arising from this Agreement.

17. LIST OF PRODUCTS.

It is hereby specifically agreed and understood by the parties that on the date of execution hereof the MA-1 compass Lear Model No. 5005, the Directional Steel Gyro Lear Model No. 2152, and the Vertical Steel Gyro Lear Model No. 2153, are the only products manufactured by Lear under the licenses herein granted, which contain any of the inventions or claims described and covered by the respective Exhibits under this Agreement. As and when additional products are manufactured by Lear under the licenses herein granted and which contain any of the inventions or claims described and covered by the respective Exhibits under this Agreement, Lear agrees to so notify Adkins and to identify the product or item by a model number or identification number, and specify which invention is incorporated or used therein, with respect to the respective Exhibits. Lear shall furnish such list of all items, as aforesaid, to Adkins not later than 30 days after the commencement of the manufacture of any new item incorporating any of the inventions, as aforesaid, provided however, that nothing herein contained shall require Lear to furnish any information to Adkins which Lear is prohibited from disclosing under the terms of any Government contracts.

18. RENEGOTIATION.

This Agreement shall be deemed to be subject to and be deemed to contain all required provisions of the Renegotiation Act of 1951 as it may be amended or

extended, or any other Renegotiation or similar Act in effect during the term of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in duplicate on the dates set opposite their respective signatures.

Witness:

Robert H. Bloomberg

John S. Adkins

LEAR INCORPORATED

Philip E. Golde

By Richard M. Mock

Secretary

September 10, 1957

Mr. John S. Adkins
468 Twenty-First Street
Santa Monica, California

Dear Mr. Adkins:

With reference to the license agreement entered into between you and Lear, Incorporated on or about September 15, 1955, we wish to inform you that we have reviewed your patent application (Exhibit B to the agreement) and conclude that it does not disclose any inventions utilized in any Lear equipment except the MA-1 system and certain components thereof. Specifically, we do not believe that any models of the so-called Steel Gyro come within the scope of Exhibit B.

We have made a search of the U.S. Patent Office files and believe that the method of bearing alignment heretofore and currently used in assembling the Lear Steel gyroscopes is not patentable. A copy of Grenat patent No. 2,531,334 found in that search was delivered to you on January 8, 1957.

Accordingly, we are preparing a revised statement of royalties paid under the agreement, as of June 30, 1957. A preliminary check indicates that if Lear, Incorporated takes credit for sums heretofore paid to you in error, the statement will show an over-payment as of June 30, 1957. We expect this statement to be completed in a very few days and would like you to check the computations that will be contained therein and report to us promptly if you believe them to be in error in any respect.

We should also like to renew our invitation to you and your counsel to meet with us at any time convenient to you to discuss prosecution of your patent application Exhibit B and any other matters of mutual interest under the agreement.

Very truly yours,
LEAR, INCORPORATED
H. J. Downes
Chief Patent Counsel

HJD:trb
cc: P. E. Golde

April 8, 1959

Mr. John S. Adkins
468 Twenty-First Street
Santa Monica, California

Dear Mr. Adkins:

Reference is made to License Agreement between you and Lear, Incorporated dated the 15th day of September, 1955.

Pursuant to its rights of termination as contained in said agreement, including but not limited to Paragraphs 2(a) and 6 thereof, Lear, Incorporated hereby exercises its rights and options to terminate the agreement and the licenses therein granted.

Very truly yours,
Richard M. Mock,
President

RMM:tb

cc: Fulwider, Mattingly & Huntley

Registered Mail

-151-

FULWIDER, MATTINGLY & HUNTLEY

Patent, Trademark and Copyright Causes

5225 Wilshire Boulevard

Los Angeles 36

Webster 5-1265

April 20, 1959

Lear, Incorporated
3171 South Bundy Drive
Santa Monica, California

Attention:

Mr. Richard M. Mock
President

Re: Adkins-Lear, Incorporated
License Agreement

Gentlemen:

Our client Mr. Adkins has received your letter of April 8, 1959 and has requested that we answer it on his behalf.

We do not under the circumstances agree with your attempted cancellation of the agreement of September 15, 1955 from either a legal or equitable standpoint, and repeat our demand for an accounting as set forth in our letter of March 20, 1959.

Please take notice that you will be held strictly liable for any further use of any of Mr. Adkins' ideas, discoveries, or inventions in connection with the manufacture or sale of gyroscopes, whether under the terms of the aforementioned agreement or otherwise.

Very truly yours,
Fulwider, Mattingly & Huntley
By John M. Lee

JML:ag

cc: Mr. John S. Adkins

Certified Mail

Return Receipt Requested

APPENDIX D:

Excerpts From the Briefs on Appeal to Both the District Court of Appeal and to the California Supreme Court, and the Petition for Rehearing Before the California Supreme Court Showing How the Federal Questions Were Raised and Preserved.

(In compliance with Rule 23(f) of
the United States Supreme Court)

1. *Excerpts From:*

Opening Brief for Lear Concerning the Directed Verdict and the Denial of Lear's Motion for Judgment Notwithstanding the Verdict, All With Respect to the 2156 Gyroscope.

This appeal is concerned with a United States Letters Patent which the trial court adjudicated invalid because it purports to cover things that are in the public domain. The trial court held that defendant is obligated to pay royalties under the patent even though the license agreement between the parties concerning the patent was terminated and even though the patent is invalid and unenforceable against the rest of the world.

The appeal is based upon the violation of defendant's Constitutional rights by enforcement of the patent against defendant under guise of state law based upon duty derived from the unjust enrichment doctrine and not upon duty imposed by contract. The state courts do not have jurisdiction or power apart from an agreement or contract to enforce a United States Letters Patent under the common law or under any state law or under an implied-in-law obligation.

Furthermore, the plaintiff does not have any protectible property rights that would support the judgment of the trial court on any legal theory. (p. 3)*

The duty imposed by the trial judge is to the effect that a licensee under an application for a patent who lawfully terminates the license agreement in accordance with the provisions of the agreement and before any patentable aspect is recognized by the Patent Office and before the patent actually issues, is estopped from contesting the validity or infringement of claims presented to the Patent Office subsequent to termination (p. 6)

of the license agreement. The duty imposed by the trial judge is also to the effect that the former licensee is obligated to pay royalties to the patent owner at the rate specified in the terminated agreement even though the patent is invalid as a matter of law because what it purports to cover is in the public domain.

This is an implied-in-law obligation based upon the unjust enrichment doctrine. Such an obligation would require all licensees under applications for patents to be bound by the patent after it issues even though the license agreement has previously been terminated and has no further force or effect.

This results in enforcement of plaintiff's patent under guise of state law and the common law without taking validity or infringement of the patent into consideration.

This is clearly a violation of defendant's Constitutional rights. Patents and the laws relating to patents

*References are to the pages of the briefs from which the excerpts are taken.

were enacted pursuant to Constitutional authority. These laws, like other laws of the United States enacted pursuant to Constitutional authority, are the supreme law of the land. (p. 7)

Contentions on Appeal.

1. Plaintiff's patent is invalid as a matter of law, and the trial court had jurisdiction and the duty to consider this issue as an incident to the counts and defenses asserted in this action.
2. The license agreement between the parties was terminated on April 8, 1959, as a matter of law and it has no force or effect after that date.
3. There are no protectible property rights in plaintiff subsequent to the termination of the license agreement other than his rights under the United States Patent Laws, and a state court does not have jurisdiction over cases arising under the patent laws. (p. 17)
4. There is no conduct or basis for any implied-in-fact obligation, and there is no consideration or duty or basis for any implied-in-law obligation with respect to the 2156 gyros or any other products sold by defendant.
5. Even if the license agreement had not been terminated, defendant has the right to show that plaintiff did not obtain the claims which were in the patent application at the time the license agreement was consummated and that the claims which ultimately issued are markedly different and of no benefit to defendant, so that there is no basis for liability. (p. 18)

ARGUMENT.

I.

Plaintiff's Patent Fails to Meet the Constitutional Standard Required for Patentability.

The basis for the United States patent system is found in Article I, Section 8 of the Constitution, the pertinent portion of which is as follows:

"The Congress shall have power . . . to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."

Congress has enacted laws pursuant to this power, and most of the laws are set forth in Title 35 of the United States Code. Sections 101, 102 and 103 set forth the requirements for patentable inventions and specify that they must be new and novel and not obvious to one skilled in the art to which the invention pertains. Section 112 states that the patent shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.

Section 6 of Title 35 of the United States Code gives the Commissioner of Patents the power to establish rules and regulations for the conduct of proceedings in the Patent Office, and the Commissioner has done so by issuing Rules of Practice of the United States Patent Office in Patent Cases. Rules 41-138 relate to the requirements for applying for a patent and the procedure

(p. 19)

before the Patent Office. Rules 106, 111, 112, 119 and 133 concern the rejection of claims by the Patent Office and the action required by the applicant. In pertinent part, they read as follows:

"106. (a) If the invention is not considered patentable, or not considered patentable as claimed, the claims, or those considered unpatentable will be rejected.

"111. (a) After the Office action, if adverse in any respect, the applicant, if he persists in his application for a patent, must rely thereto and may request reexamination or reconsideration, with or without amendment.

...

"(c) In amending an application in response to a rejection, the applicant must clearly point out the patentable novelty which he thinks the claims present in view of the state of the art disclosed by the references cited or the objections made. He must also show how the amendments avoid such references or objections.

"112. After response by applicant (rule 111) the application will be reexamined and reconsidered, and the applicant will be notified if claims are rejected, or objections or requirements made, in the same manner as after the first examination. Applicant may respond to such Office action, in the same manner provided in rule 111, with or without amendment, but any amendments after the second office action must ordinarily be restricted to the rejection or to the objections or requirements made, and the application will be again considered, and so

(p. 20)

on repeatedly, unless the examiner has indicated that the action is final.

"119. The claims may be amended by canceling particular claims, by presenting new claims, or by amending the language of particular claims (such amended claims being in effect new claims). The requirements of rule 111 must be complied with by pointing out the specific distinctions believed to render the claims patentable over the references; in presenting arguments in support of new claims and amendments.

"133. (b) In every instance where reconsideration is requested in view of an interview with an examiner, a complete written statement of the reasons presented at the interview as warranting favorable action must be filed by the applicant. An interview does not remove the necessity for response to Office actions as specified in rules 111, 135."

Thus, the proceeding first involves filing an application for a patent with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention. If the claims are not considered patentable, they are rejected by the Patent Office. The applicant may request reconsideration by filing an amendment in which the distinctions in the claims believed to render them patentable must be pointed out, and the claim language may be changed by amendment or by presenting new claims.

The procedure for obtaining a patent usually requires several years, and the applicant acquires no property right in an invention by filing an application for a patent.

Defendant submits that obtaining allowance of the claims in suit by an interview with the Examiner on approximately March 30, 1959, without a record of the matters discussed or the arguments presented or who participated in the interview on behalf of plaintiff, is a failure to comply with the requirements for obtaining a valid patent. The file history of a patent must show these matters in order to afford proper interpretation of the claims.

A very similar situation arose in *Technograph Printed Circuits, Ltd. v. Bendix Aviation Corp.* (D. Md. 1963), 218 F. Supp. 1 [affirmed (4th Cir. 1964) 327 F.2d 497], wherein the court stated at pp. 23-24:

"Moreover, in this case the initial rejection of the claims in the three patents on the cited art, but the final capitulation and issuance of the patents without any explanation on why or how the cited art formerly held to be controlling is now to be distinguished, weakens their prima facie validity. Especially is this so where, as here, the most significant allowances occur after conferences, with no record statement or summary of the matters discussed or the arguments producing persuasion; nor even any
(p. 26)

reference to the names of the conferees on behalf of the applicant.

In view of these circumstances and the discussion heretofore with respect to the cited art, the court would be strongly inclined to hold that the Examiner was right in his original rejections; wrong in his retreats; and that the patents were invalid in view of the prior art. When the available literature, both patents and publications, not cited,

is considered, and also the ability of persons unaware of the alleged inventions to reach the same results by the same means, the court has no hesitation in holding the patents, and the claims in suit, to be invalid."

The court went on to state at page 46, as follows:

"That fraud, inequitable conduct or bad faith in proceedings in the Patent Office may result in unenforceability of a patent is well established. [Citing numerous authorities]" (p. 27)

It is submitted that the activities of Mr. Turner in first representing defendant and thereafter representing plaintiff concerning the patent application and the license agreement, all with plaintiff's direct knowledge of the activities, is more than enough to result in unenforceability of plaintiff's patent in accordance with the *Technograph* case and the numerous authorities cited therein. (p. 30)

Both plaintiff's assertions and defendant's defenses have placed the validity and infringement of plaintiff's patent claims in issue. (p. 34)

Thus, the trial court had the duty to ascertain whether or not plaintiff's patent meets the standard of invention required by the Constitution. The trial court had jurisdiction to adjudicate invalidity and non-infringement of plaintiff's patent as an incident to the issues of the case founded upon the law of contracts.

However, as will be discussed in the next sections of this brief, the trial court did not have jurisdiction to impose damages with respect to the 2156 gyros on any theory after April 8, 1959 because the license agreement between the parties was terminated

on that date and because plaintiff had no property rights which are protectible in the state courts after the agreement was terminated. (p. 38)

It is submitted further that the directed verdict is in error because the license agreement was terminated, and the law is clear that the doctrine of license estoppel does not continue after termination of the agreement. (p. 46)

The directed verdict is also in error because there is a complete failure of consideration to support any obligation imposed by law, such as under the unjust enrichment doctrine of *Seagren v. Smith*. (p. 46)

When a license includes a termination provision which is exercised by either party, any estoppel to contest validity of the licensed patent does not continue beyond the date of termination. The reason for the rule is that after termination the licensor-licensee status is at an end and the parties stand in the same position and with the same rights that strangers have.

Davis v. Buck-Jackson Corporation (4th Cir. 1956), 230 F. 2d 655;

Miehle Printing Press & Mfg. Co. v. Publication Corporation (7th Cir. 1948), 166 F. 2d 615;

Measurements Corp. v. Ferris Instruments Corp. (3rd Cir. 1947), 159 F. 2d 590;

Tate v. Baltimore & O. R. Co. (4th Cir. 1915), 229 Fed. 141;

Stimpson Computing Scale v. W. F. Stimpson (6th Cir. 1900), 104 Fed. 893;

Walker on Patents (Deller's Ed.), 1937, pp. 1496 and 1505. (p. 47)

The limits of the licensee estoppel doctrine were recognized as early as 1886 in the case of *Brown v. Lapham* (S.D. N.Y., 1886), 27 Fed. 77. In the *Brown* case the defendants were prior licensees of plaintiff who had brought suit against them in equity and who had moved for a preliminary injunction. The court answered plaintiff's motion in the following manner as set forth at page 77:

"... The plaintiff relies upon the estoppel of the defendants to deny the validity of the patent growing out of the license and the operating under it by them. There is no fair question but that a licensee under a patent is estopped to deny its validity of any question arising out of that relation between the parties. *Kinsman v. Parkhurst*, 18 How. 289. (p. 51)

It does not follow that he will be always estopped because he has stood in that relation. When he stands out from under the license, and claims nothing from it, and does nothing more under it, with full knowledge to the licensor of his position, he would appear to be at as full liberty to contest the patent as anyone..."

Additional authorities to the same effect are:

H. Tibbe & Son Manufacturing Co. v. Heineken
(Circuit Court S.D. N.Y. 1889), 37 Fed. 686;

DeCrew v. Union Bag & Paper Corp. (N.J. 1944), 57 F. Supp. 388;

Howe v. Atwood (E.D. Mich. 1942), 47 F. Supp. 979;

Frost Ry. Supply Co. v. T. H. Symington & Son (Md. 1938), 24 F. Supp. 20;

Chance v. Lehigh Navigation Coal Company
(E. Pa. 1938), 25 F. Supp. 532;

Eskimo Pie Corporation v. National Ice Cream
Co. (W.D. Ky. 1927), 20 F. 2d 1003;

Bituminous Products Co. v. Headley Good Roads
Co. (D. Del. 1924), 2 F. 2d 83. (p. 52)

However, any rights which plaintiff has with respect to his patent, apart from those based upon the license agreement [Ex. 8], must be based upon his statutory patent rights, and not upon the common law or upon state law. Such rights arise under the United States Patent Laws, and the state courts do not have jurisdiction to enforce such rights. (p. 58)

With reference to the first cause of action based upon the express agreement concerning plaintiff's patent, the trial court found that the agreement was terminated. As an incident to interpretation of the agreement, and as an incident to plaintiff's allegation of unjust enrichment under *Seagren v. Smith*, and as an incident to the defenses of failure of consideration to support any kind of obligation, the trial court properly considered the validity of plaintiff's patent and held it invalid. Accordingly, damages cannot thereafter be imposed against defendant under guise of state law, such as on the theory of unjust enrichment found in the case of *Seagren v. Smith*. To award damages on unjust enrichment would interfere with the federal policy, found in Art. I, §8 of the Constitution and in the implementing federal statutes as set forth in the *Compco* and *Sears* cases.

(p. 60)

Thus, the trial court expressly found that there was a failure of consideration. Nevertheless, the trial court went on to impose liability with respect to the 2156

gyros on the estoppel theory. As discussed above, the estoppel theory cannot apply as a matter of law to the present action.

There is no consideration under the agreement because the parties have not operated under it since April 8, 1959. There is no consideration under the claims of plaintiff's patent because they are invalid. There is no consideration with respect to what the patent teaches because that has been made public. (p. 78)

Thus, unjust enrichment or an obligation implied-in-law cannot apply as a matter of law because there is no consideration to support such a theory. (p. 79)

By inserting the above in his patent application the plaintiff changed the tenor of his invention. When the patent finally issued in January of 1960 after pending almost six years and undergoing six amendments in which the wording of both the description and the (p. 94)

claims were changed, it was directed to a different invention than the method upon which the contract was based. The patent 2,919,586 [Ex. 10] contains no method claims at all [Exs. 10 and P].

Even though the plaintiff has asserted that the above matter added by amendment filed December 22, 1958, is not new matter [p. 62 of Ex. P], it is clear that it is new matter as a matter of law and that the plaintiff was attempting to re-define his invention. Thus, what plaintiff asserted to be his invention as of December 22, 1958, by amendment, was something markedly different from the invention before the parties when they entered into the license agreement on September 15, 1955. (p. 95)

After the verdict of the jury and the judgment thereon, defendant made a motion for judgment notwithstanding the verdict on this ground. The trial court denied this with respect to the 2156 gyros on the ground of licensee estoppel.

Lear's motion for judgment notwithstanding the verdict should have been granted and the directed verdict (p. 96)

with respect to the 2156 gyros should be vacated because licensee estoppel does not apply as a matter of law. (p. 97)

Thus, it is clearly the law of California that where two parties contract with respect to an invention evidenced by a patent application, the licensee is free to contest the patent when it issues even if the license agreement has not been terminated. This is true even if the suit is for royalties under the license agreement. Estoppel does not apply because the claims of the patent application can be changed after the license agreement is consummated, and the new claims may be subject to the defense of failure of consideration.

In the *Marvin* case, the licensor failed to obtain the claims which were in his application when the license was consummated and the court permitted the licensee to contest the patent when it issued even though the license agreement had no termination provision that could be exercised.

In the present case, the licensor failed to obtain the claims which were in his application when the license was consummated, and defendant can contest the patent which ultimately issued, just as the licensee did in the *Marvin* case. The claims which plaintiff did obtain have been adjudicated to be invalid, and hence there would be

no obligation for defendant to pay royalties on the 2156 gyro even if defendant had not terminated the license agreement. (p. 100)

There has been a failure of consideration in the present action as a matter of law both as to the claims which were in the application at the time the license was consummated and as to the validity of the claims which ultimately issued. Also in the present action defendant has repudiated the license agreement, as well as terminating it in accordance with the license provisions, and the parties have not operated under the agreement at all since April 8, 1959.

Thus, even if the license agreement had not been terminated in accordance with the provisions of the agreement, defendant is free to contest the patent in the present action for royalties pursuant to the agreement, just as the licensees were permitted to do in the *Marvin* and *Crew* cases. (p. 102)

2. *Excerpts From:*

Reply Brief for Lear, Incorporated Concerning the Directed Verdict and the Denial of Lear's Motion for Judgment Notwithstanding the Verdict, All With Respect to the 2156 Gyroscope.

The trial court, in granting defendant's motion for judgment notwithstanding the verdict with respect to all gyroscopes other than the model 2156, relied on the cases of *Bergman v. Aluminum Lock Shingle Corporation of America* (9th Cir. 1958), 251 F. 2d 801; *Monroe Auto Equipment Corp. v. Superior Industries, Inc.* (9th Cir. 1964), 332 F. 2d 473; and *Great Atlantic & Pacific Tea Company v. Supermarket Equipment Corp.* (1950), 340 U. S. 147. [Cik. Tr. p. 2085.] Both Ninth Circuit cases, i.e., the *Bergman* case and the *Monroe Auto Equipment* case, specifically referred to and followed the United States Supreme Court case of *Great Atlantic & Pacific Tea Company, supra*.

The United States Supreme Court has recently reaffirmed the principles set forth in the *Great Atlantic & Pacific Tea Company* case, *supra*, (p. 2)

Pacific Tea Company case, *supra*, in the case of *Graham v. John Deere Company* (1966), 34 U.S. Law Week 4199, opinion dated February 21, 1966; ... U.S.; 15 L. Ed. 2d 545. Some of the basic principles that are reiterated in the *Graham* case by the United States Supreme Court are:

(a) "... Innovation, advancement, and things which add to the sum of useful knowledge are inherent requisites in a patent system which by constitutional command must 'promote the Progress of ... useful Arts.' This is the *standard* expressed in the Constitution and it may not be ignored. And it

is in this light that patent 'validity requires reference to a standard written into the Constitution.' *A & P Tea Co. v. Supermarket Corp.*, *supra*, at 154 . . ."

(b) "... The grant of an exclusive right to an invention was the creation of society—at odds with the inherent free nature of disclosed ideas—and was not to be freely given. Only inventions and discoveries which furthered human knowledge, and were new and useful, justified the special inducement of a limited private monopoly . . ."

(c) "We believe that this legislative history, as well as other sources, show that the revision (the addition of §103 to Title 34 U.S. Code) was not intended by Congress to change the general level of patentable invention. We conclude that the section was intended merely as a codification of judicial precedents embracing the *Hotchkiss* condition with congressional directions that inquires into the obviousness of the subject matter sought to be patented are a prerequisite to patentability." (p. 3)

(d) "Approached in this light, the §103 additional condition, when followed realistically, will permit a more practical test of patentability. The emphasis on non-obviousness is one of inquiry, not quality, and as such, comports with the constitutional strictures."

(e) "... the ultimate question of patent validity is one of law, *A. & P. Tea Co. v. Supermarket Corp.*, *supra*, at 155, . . ."

In the instant case the trial court in 1964 applied the same tests that are set forth in the *Graham* case in 1966 and concluded that plaintiff's claimed apparatus for supporting bearings is invalid.

(p. 4)

The plaintiff asserts in his answering brief in this appeal at page 24 that the defendant licensed all of the claims of the application and all of the claims of any patent issuing thereon. This is ridiculous because it is not possible to take a license on something which is not in existence. Furthermore, under the license agreement the only obligation on the part of the defendant was to pay royalties for the use of patentable inventions. Thus, in the instant case the defendant, as a licensee with an obligation to pay royalties for the use of patentable inventions, was receiving no immediate benefit under the license agreement. The plaintiff had no protectible property right under the United States Patent Laws and therefore the defendant had no patent monopoly or patent protection for its products.

United States patents are the creatures of statute. They find their primary basis in the United States Constitution, Article I, §8, clause 8, which provides in pertinent part:

“The Congress shall have power . . . To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.” (p. 25)

Congress has enacted laws pursuant to this power and most of these laws are set forth in Title 35 United States Code. Sections 101, 102, and 103 of Title 35 set forth the requirements for patentable inventions and specify that they must be new and novel and not obvious to one skilled in the art to which the invention pertains.

Sections 111 to 122 of Title 35 provide for the filing of an application for a patent and the requirements

for the patent application. Section 111 of Title 35 provides that an application shall include a specification, a drawing, and an oath. Section 112 of Title 35 provides that the specification shall contain a written description of the invention and "shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention."

Section 6 of Title 35 of the United States Code gives the Commissioner of Patents the power to establish rules and regulations for the conduct of proceedings in the Patent Office, and the Commissioner has done so by issuing Rules of Practice in the United States Patent Office in patent cases. Rules 41 to 138 of these Rules of Practice relate to the requirements for applying for a patent and the procedure before the Patent Office.

A license or contract concerning patent applications and patents have more than the usual two interested parties. Patents from their inception have been de-

(p. 26)

signed to promote the progress of science and were instituted for the public's benefit and not as a reward for the inventor. *Kendall v. Winsor* (1859), 62 U.S. 165, 21 How. 322-331.

As stated by the United States Supreme Court in the case of *Precision Instrument Manufacturing Company v. Automotive Maintenance Machinery Company* (1944), 324 U.S. 806, 89 L. Ed. 1381:

"... The possession and assertion of patent rights are 'issues of great moment to the public.' [Citing cases.] A patent by its very nature is affected with a public interest. As recognized by the

Constitution, it is a special privilege designed to serve the public purpose of promoting the 'Progress of Science and useful Arts.' At the same time, a patent is an exception to the general rule against monopolies and to the right to access to a free and open market." 324 U.S. at page 815.

This has been consistently applied in the Ninth Circuit Court of Appeals and was commented upon in the case of *Griffith Rubber Mills v. Hoffar* (9th Cir. 1963), 313 F. 2d 1, at page 3 as follows:

"... Patents are issued not for private benefit but for the public good; they grant a monopoly for a limited period as an incentive to the disclosure of innovations which in the end will add to the fund of freely available knowledge. However, the public is entitled to benefit, without granting special concessions, from such advances as normally flow from the application of the ordinary skills of one in the trade to the existing fund of
(p. 27)

public knowledge. Thus the statute prescribes, as a condition of patentability, that what has been accomplished must be such that it would not have been obvious to a hypothetical person skilled in all that could have been known, at the pertinent time, in the field to which the invention relates.

"It follows that though a device may be new and useful it is not patentable if it consists of no more than a combination of ideas which are drawn from the existing fund of public knowledge, and which produces results that would be expected by one skilled in the art. A public grant of the private power to exclude others from making, using, and

selling such a device simply 'withdraws what already is known into the field of its monopoly and diminishes the resources available to skillful men.' No balancing public benefit results from such a patent since the fund of freely available public knowledge is reduced during the period of monopoly, and is only restored rather than enhanced when that period ends."

In the present action the trial court expressly found that plaintiff's patent attempts to cover something that is in the existing fund of public knowledge and something that would be obvious to one skilled in the art. Thus, plaintiff's patent is invalid, it does not provide protection for any device or product, and its validity with respect to the 2156 gyros can be contested by defendant and also by everyone else because of the public interest which is involved. (p. 28)

The court instructed the jury as follows:

"Insofar as the Model 2156 is concerned, the defendant, as licensee, is estopped as a matter of law to deny that it used that model. The only question, therefore, is how much does defendant owe plaintiff on Model No. 2156.

"The parties have stipulated that the amount is \$16,351.93 as royalties for the period involved.

"This rule of estoppel which I have applied to the Adkins device arises under the principle of law that having accepted the role of a licensee, defendant may not in that role challenge validity of his license or his patent." [p. 2838, lines 1-12].

This application of licensee estoppel is directly contrary to all of the law in this jurisdiction and the others that have ruled upon the subject. (p. 77)

A RULING OF INVALIDITY OF PLAINTIFF'S PATENT IS REQUIRED BY THE UNITED STATES. SUPREME COURT CASES OF FEBRUARY 21, 1966.

• On February 21, 1966, the United States Supreme Court decided four patent cases. These cases were Nos. 11, 37, 43, and 55 on the calendar for the October Term of 1965. The decisions in these cases are exactly in accordance with the argument set forth in defendant's opening brief herein and support a finding of invalidity of plaintiff's patent and judgment for defendant with respect to its model 2156 gyroscopes. These cases are:

Graham v. John Deere Company of Kansas City (No. 11, decided Feb. 21, 1966), U.S., 15 L. Ed. 2d 545, 148 U.S.P.Q. 459;

Calmar, Inc. v. Cook Chemical Company (No. 37, decided Feb. 21, 1966), U.S., 15 L. Ed. 2d 545, 148 U.S.P.Q. 459;

Colgate-Palmolive Company v. Cook Chemical Company (No. 43, decided Feb. 21, 1966), U.S., 15 L. Ed. 2d 545, 148 U.S.P.Q. 459; (p. 81)

United States v. Adams (No. 55, decided Feb. 21, 1966), U.S., 15 L. Ed. 2d 572, 148 U.S.P.Q. 479. (p. 82)

THE DIRECTED VERDICT BASED ON PLAINTIFF'S PATENT RIGHTS SHOULD BE REVERSED BECAUSE PLAINTIFF'S PATENT WAS OBTAINED BY FRAUD AND IS UNENFORCEABLE AND BECAUSE OF PLAINTIFF'S UNCLEAN HANDS WITH RESPECT TO OBTAINING THE PATENT.

(p. 118)

The addition of new matter late in the prosecution by the amendment of December 19, 1958, and claims based upon this new matter by the subsequent amendments is expressly prohibited by the United States Patent Laws and in particular, *Title 35 U.S.C. §§102, 132*. When the invention asserted by the new matter and claimed in the new claims was employed in any product sold more than one year before the invention was asserted in the United States Patent Office with the

(p. 126)

knowledge of the parties asserting this new matter, the addition of the new matter and new claims with this knowledge clearly constitutes a fraud on the United States Patent Office and the public.

Defendant's model 2156 gyroscope and defendant's Michigan gyroscopes were sold in 1955 and 1956, and royalties were paid to the plaintiff on these products so that the plaintiff clearly had knowledge of these sales more than two years before the change of tenor of the invention and the addition of claims to set forth this different invention [Exs. 35, 48 and 49 in evidence].

It has been stated by the United States Supreme Court in *Precision Instrument Manufacturing Company v. Automotive Maintenance Machinery Company* (1944), 324 U.S. 806, 89 L. Ed. 1381, a case that involved misconduct in the procurement of a patent, at page 815:

“ . . . The possession and assertion of patent rights are ‘issues of grant moment to the public.’ *Hazel-Atlas Glass Co. v. Hartford-Empire Co.*, 322 US 238, 246, 88 L ed 2150, 1255, 64 S Ct. 997. See also *Mercoid Corp. v. Mid-Continent Invest. Co.*, 320 US 661, 665, 88 L ed 376, 380, 64 S Ct

268; *Morton Salt Co. v. G.S. Suppiger Co.* (US) supra; *United States v. Masonite Corp.*, 316 US 265, 278, 86 L ed 1461, 1475, 62 S Ct 1070. A patent by its very nature is affected with a public interest. As recognized by the Constitution, it is a special privilege designed to serve the public purpose of promoting the 'Progress of Science and useful Arts.' At the same time, a patent is an exception to the general rule against monopolies and to the right to access to a free and open market. *The far-reaching social and economic consequences* (p. 127)

of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope. The facts of this case must accordingly be measured by both public and private standards of equity." (Emphasis added).

Another case commented upon by the United States Supreme Court which involved fraud on the United States Patent Office and the public was *Hazel-Atlas Glass Co. v. Hartford-Empire Co.* (1943), 322 U.S. 238, 88 L. Ed. 1250.

Additionally, it has been recently reaffirmed that fraudulent procurement is a good defense in a case involving a patent. *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.* (Dec. 6, 1965), 147 U.S.P.Q. 404 at 406, 15 L. Ed. 2d 247, 251. (p. 128)

The imposition of liability with respect to the 2156 gyros under state law based upon the unjust enrichment doctrine on the ground that the 2156 gyros are covered by plaintiff's patent [p. 3080] is a direct violation of

defendant's constitutional rights. The Supreme Court has so held.

In *Sears, Roebuck & Co. v. Stiffel Co.* (1964), 375 U.S. 225, and *Compco Corp. v. Day-Bright Lighting, Inc.* (1964), 367 U.S. 234, the court held that a state cannot give protection of a kind that clashes with the objectives of the federal patent laws, and that a state
(p. 137)

court cannot enforce a patent which is invalid because under the patent laws everything in such a patent is in the public domain.
(p. 138)

After termination there was no proper basis to impose any liability on the defendant. Additionally, there was no proper basis to impose any estoppel on the defendant with respect to plaintiff's subsequently issued patent. The doctrine of licensee estoppel does not apply as a matter of law after termination of the license agreement. Any attempt to enforce plaintiff's patent under
(p. 140)

state law based upon licensee estoppel or based upon the obsolete authority of *Seagren v. Smith* violates defendant's Constitutional rights. This is because such enforcement of the patent conflicts directly with the United States Patent Laws. These laws were reviewed by the U. S. Supreme Court on February 21, 1966, and the guidelines concerning inventions which are patentable were reaffirmed. Adkins' patent clearly fails to meet the Constitutional standard as set forth by the U.S. Supreme Court.
(p. 141)

3. *Excerpts From:*

Respondent's and Cross-Appellant's Opening Brief on Appeal Instituted by Plaintiff From the Judgment for Defendant Notwithstanding the Verdict and From the Order Granting a New Trial in the Alternative and on Cross-Appeal Instituted by Defendant From the Judgment Entered May 4, 1964 and Amended Judgment Entered December 30, 1964.

The primary question under the express contract theory is whether defendant was justified in discontinuing the payment of royalties on the early Michigan gyros, *i.e.*, the models 2151, 2152 and 2153, on September 10, 1957, on the basis that the defendant could not receive and had not received any benefit under the executory license agreement because the plaintiff was unable to and would be unable to get a patent having valid claims covering defendant's Michigan gyroscopes. In considering this question, the ancillary questions of the coverage of the defendant's products by the claims of plaintiff's Patent No. 2,919,586, and the validity of these claims must be considered and are determinative.

(p. 10)

Additionally, plaintiff has no protectible property right under the United States Patent Laws because his claimed invention is, as a matter of law, obvious in view of the prior art. To have a protectible property right the claimed invention must be unobvious, *i.e.*, it must be an invention. The test of invention is whether

(p. 22)

the device would have been obvious to one skilled in the art, and it is a question of law to be determined by the court based upon a constitutional standard.

Even though the prior art may not anticipate a claimed invention in every detail, the disclosures of the prior art may negative invention. That is, in light of the prior art or prior devices the patented device would have been obvious. Every feature and object of plaintiff's patented device is disclosed in one or more of the prior art patents and is thus invalidated as not meeting the constitutional standard of invention.

Furthermore, the plaintiff attempted to change the tenor of his invention and assert something entirely new or different from the original disclosure. The patent laws are specific on this subject and require that the claimed invention be disclosed in a patent application within one year after the first public sale, use or disclosure of the invention. In this case the plaintiff attempted to change the tenor of his invention and to claim something different from the original disclosure more than two years after defendant's products were on the market. This cannot be done.

In addition to the plaintiff not having any protectible property right under the United States Patent Laws because of invalidity of the claimed invention, the plaintiff has no protectible property right or conversely, the defendant has received no benefits under plaintiff's patent because plaintiff's patent claims do not cover defendant's products and thus do not provide any protection to the defendant in the manufacture and sale of its products. In particular, defendant's Michigan products are not covered by the claims of plaintiff's patent which call for three elements wherein two

(p. 23)

of these elements have cooperating surfaces, one adapted to seat against the other, which provides a universal

type joint or ball and socket type joint. Such cooperating surfaces are not required nor found in defendant's Michigan devices. Furthermore, defendant's Michigan devices are not taught nor disclosed in plaintiff's patent. Thus, as a matter of law, defendant's Michigan devices are not covered by plaintiff's patent and do not incorporate any protectible property right of the plaintiff. Furthermore, not only are defendant's Michigan devices not covered by the claims of plaintiff's patent, but these devices spring entirely from the prior art. This is clearly seen in Fig. 4 on the opposite page wherein the apparatus for supporting bearings of defendant's Michigan gyros are compared with the prior art devices and the preferred embodiment of plaintiff's patent.

Plaintiff has no protectible property right under the United States Patent Laws and defendant has received no benefit based upon plaintiff's patent rights for the above four reasons, that is, invalidity of plaintiff's patent based upon (1) anticipation and also based upon (2) obviousness and (3) the non-coverage of defendant's devices by the claims of plaintiff's patent, and (4) the fact that defendant's devices spring entirely from the prior art, *i.e.*, the devices are built wholly according to the teaching of the prior art and everything necessary to their conception and construction is taught by the prior art.

Thus, in the absence of any benefit, the defendants have no obligation to the plaintiff under any theory, including the breach of contract and unjust enrichment theories, advanced by the plaintiff. (p. 24)

The only proper issue before the court in connection with plaintiff's breach of contract theory based

upon the written license agreement was whether the plaintiff obtained a valid patent having substantial claims that were to be in plaintiff's patent application pursuant to the executory contract or license agreement. This issue arises because plaintiff asserts that defendant breached the agreement when defendant sent the notice of September 10, 1957 [Ex. 36] in which defendant repudiated any obligation to pay royalties on the Michigan products or steel gyros. (p. 61)

Similarly, in the present case, in considering the liability on the part of the defendant prior to the termination of the license agreement the court should consider whether the plaintiff obtained a valid patent having substantial claims covering defendant's products in accordance with the license agreement. Thus, the primary determinative issue is: Was the plaintiff able to perform under the executory license agreement and did the plaintiff procure a patent including the claims pres- (p. 63)

ent in the application when the license agreement was entered into on Sept. 15, 1955. Ancillary to these questions are the questions of validity and coverage of plaintiff's patent which are determinative of the issues under plaintiff's count of breach of the express license agreement.

The trial court in the present action found that the claims of plaintiff's patent covered apparatus for supporting bearings that was not new or novel as required by 35 U.S.C. §§101 and 102, and that the claims failed to meet the test of unobviousness of 35 U.S.C. §103.

The trial court noted that the standard of patentability is a Constitutional standard and is a question of law [Clk. Tr. p. 2085, lines 6-12 and lines 27-30].

These rulings were made as an incident to the interpretation of the license agreement [Ex. 8] concerning plaintiff's patent application, and as an incident to ascertainment or whether or not there was any consideration or protectible property right to form a basis for liability after termination of the license agreement. Both plaintiff's assertions and defendant's defenses have placed the validity and infringement of plaintiff's patent claims in issue. (p. 64)

In the present action there are four main issues which are determinative of the case in accordance with the decision of the trial court. All of these issues are questions of law. These issues are:

(1) the construction of the written license agreement of September 15, 1955, which formed the basis for plaintiff's first cause of action;

4 (2) the performance by the plaintiff under this executory agreement or the failure of consideration of the executory agreement, all of which is set forth in the file history of plaintiff's patent application [Ex. P] and the various issued patents of record which show the prior art;

(3) the validity of plaintiff's Patent No. 2,919,586 [Ex. 10]. (p. 78)

Thus, it is seen that defendant never operated as a licensee under any allowed claims in the patent application; defendant never operated as a licensee under any of the claims in the application as originally filed because none of these claims were ever allowed; defendant never received any benefit from the license agreement; and defendant terminated the agreement in accordance with its express provisions approximately nine months before the patent issued so that defendant was

never a licensee under the patent. By the termination defendant assumed the legal status of a stranger which new status removes all estoppel against defendant as an erstwhile licensee with regard to contesting the validity of the patent. (p. 108)

A. Plaintiff's Patent Is Invalid Under the United States Patent Laws Because of Anticipation, Obviousness, and Late Claiming.

The United States Patent Laws provide in pertinent parts:

“§ 101. Inventions patentable

“Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

“§ 102. Conditions for patentability; novelty and loss of right to patent

“A person shall be entitled to a patent unless—

“(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or

“(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, or

“(e) the invention was described in a patent granted on an application for patent by another filed in the United States before the invention thereof by the applicant for patent, or

* * *

“§ 103. Conditions for patentability; non-obvious subject matter (p. 128)

“A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negated by the manner in which the invention was made.”

The lack of patentability based upon prior art under §102 is generally and properly referred to as anticipation. Statutory bars including late claiming, *i.e.*, presenting the invention in an application to the United States Patent Office more than one year after public sale or public disclosure of the invention, is also part of §102 although not generally considered to be covered by the term “anticipation.”

Muncie Gear Works, Inc. v. Outboard Marine & Mfg. Corp. (1942), 315 U.S. 759;

Aetna Steel Products Corp. v. Southwest Products Co. (9 Cir. 1960), 282 F. 2d 323.

The lack of patentability under §103 of Title 35 of the United States Code is properly referred to as obviousness.

There is a distinction between the two conditions of patentability under § 102 and § 103. If a patent is anticipated (§102), it is invalid for lack of novelty, but a patent is invalid for lack of invention if it would have been obvious (§103). (p. 129)

This method claim, as well as all others, were rejected by the Patent Office. This rejection was acquiesced in by the plaintiff and all method claims were cancelled [pp. 70 and 71 of Ex. P]. No method claims were allowed and only apparatus claims appear in the issued patent [Ex. 10].

Plaintiff's apparatus claims cannot now be broadened to include the method of assembly or to be read as method claims. Plaintiff's method claims having been eliminated from his application, the plaintiff may not now expand the apparatus claims to include the eliminated claims. A similar situation occurred in the case of *Bacon American Corporation v. Super Mold Corporation of California* (N.D. Cal. 1964), 229 F. Supp. 998, wherein the owner of the patent attempted to expand apparatus claims to include a method. (p. 153)

With plaintiff's invention as construed by the court in mind, it is clear that this apparatus for supporting bearings does not rise to the level of invention required for combination claims to meet the constitutional standard noted in the case of *Great Atlantic & Pacific Tea Company v. Supermarket Equipment Corp.* (1950), 340 U.S. 147.

7

D. Plaintiff Has No Invention Over the Prior Art — No New or Unusual Results Flow From the Aggregation of Old Elements — the Patent Is Invalid Because of Anticipation and Obviousness.

Plaintiff's apparatus for supporting bearings as set out in claim 9 of Patent No. 2,919,586 is clearly unpatentable as a matter of law in view of that part of the prior art that includes only earlier patents. (p. 159)

That is, the claims of the patent must always be explained by and read in connection with the specifications and in the light of definitions and admissions made by the applicant in the proceeding in the Patent Office. *Moon v. Cabot Shops, Inc., supra*, at age 543. It is well established that the claims must be read and interpreted in the light of the claims which have been rejected. Claims which have been allowed cannot, by construction, be read to cover what has thus been eliminated from the patent. *Oregon Saw Chain Corp. v. McCulloch Motors Corp., supra*, at 768; *McCulloch Motors Corp. v. Oregon Saw Chain Corp.* (S.D. Cal. 1964), 234 F. Supp. 256. (p. 210)

Additionally, a patentee cannot regain by recourse to the doctrine of equivalents that which he has disclaimed. (p. 211)

This amendment clearly did constitute new matter and should not have been included in the specification. 35 U.S.C. §§ 102, 132; *Muncie Gear Works, Inc. v. Outboard Marine & Mfg. Corp.* (1941). (p. 215)

Thus, in accordance with the requirements for patentability found in Title 35 of the United States Code, §102, if the replaceable bearings or interchangeable

mounting was the point of novelty it could not be claimed at this late date.

Muncie Gear Works, Inc. v. Outboard Marine & Manufacturing Company (1941), 315 U.S. 759; (p. 219)

After the court has construed the claims in light of the specification and drawings and file wrapper history the next step in determining the proper scope to be given to those claims is to look at the prior art. This is so because the claims of a patent must be limited to not cover prior art devices because the claims would be invalid if they covered any prior art devices.

Moon v. Cabot Shops, Inc. (9th Cir. 1959) 270 F. 2d 539; (p. 223)

With reference to an agreement based upon claims of an application for a patent, in *Baldwin Rubber Co. v. Paine & Williams Co.* (6th Cir. 1939), 107 F. 2d 350, the court stated at page 354:

“... Passing the precise question as to whether the licensee is bound by claims which had no existence and were not in the application when the license agreement was executed, it would seem to us that since the licensee is not estopped from considering the scope of patent claims in the light of prior art, and when so considered claims may be so narrowly construed as to fail to cover the licensee's articles, practices or machine, it must follow that when claims are so broad as to comprehend all prior art the licensee who contracted for the use of an invention, and not for art in which the licensor had no monopoly, is not bound and that this does no violence to the rule of estoppel which forecloses challenge by the licensee to the

validity of a patent. If this were not so, a licensor, in a license granted upon an application, might include in amended claims every article manufactured and every practice or machine employed by the licensee, whether germane to the invention or not. *Westinghouse Electric & Manufacturing Co. v.* (255)

Formica Insulation Company, 266 U.S. 342, 351, 45 S.-Ct. 117, 69 L. Ed. 316; *Noonan v. Chester Park Athletic Club Co.*, 6 Cir., 99 F. 90."

In view of the fact that the claims of a patent application can be changed, a licensee under such claims requires certain safeguards. The safeguards in the present license agreement are the cancellation provisions of paragraphs 2(a) and 6 of the agreement.

The plaintiff alleged that he had done everything on his part to be performed under the license agreement of September 15, 1955 [Plaintiff's Complaint—Clk. Tr. p. B-4, lines 13-14]. The defendant generally denied this allegation by its answer filed February 9, 1960 [Clk. Tr. p. B-26, lines 23 and 24].

The issue of full performance by the plaintiff under the license agreement of September 15, 1955 [Ex. 8] was preserved in the pretrial conference order filed January 20, 1964 [Clk. Tr. p. 1402, lines 2-3].

Failure of the plaintiff to perform, or conversely, the refusal of the United States Patent Office to issue a patent on the substantial claims of plaintiff's patent application Serial No. 410,237 would constitute a failure of consideration for the continuing obligation to pay royalties on products incorporating a patentable invention of plaintiff under the executory license agreement. This failure of consideration is independent of the orig-

inal consideration whereby, the license agreement was signed and defendant paid the plaintiff over \$1,000.

(p. 256)

Therefore, there was a failure of consideration with respect to any and all possible obligations on defendant's Michigan products. Therefore, judgment notwithstanding the verdict with respect to the Michigan products was proper and should be affirmed. (p. 270)

**DEFENDANT WAS SUBSTANTIALLY PREJUDICED
BY THE COURT'S REFUSAL TO CONSIDER THE
ALLEGATIONS OF FRAUD ON THE PATENT
OFFICE IN THE PROCUREMENT OF PLAINTIFF'S PATENT.**

The defendant made a motion for leave to file an amended answer asserting the affirmative defenses of fraud and deceit with respect to both the first and the second causes of action [Clk. Tr. p. 149]. In the amended answer it was asserted that during the preparation and prosecution of plaintiff's patent application Serial No. 410,237 in the United States Patent Office plaintiff enlarged his description and claims from time to time in an attempt to cover developments which were not his own for which he was not entitled to cover, and which in fact were the independent development of other employees of the defendant [Clk. Tr. p. 155, line 30, to p. 156, line 3].

In this amended answer it is also asserted that on August 7, 1959, and December 24, 1959, that the plaintiff filed affidavits in the United States Patent Office falsely stating that the enlarged disclosure and altered claims were part of his original invention. These affidavits were submitted to the Patent Office by defend-

(p. 389)

ant's former patent agent, Perry Turner [Ex. P, pp. 171-184]. These acts constituted fraud on the United States Patent Office and on the public as well as on the defendant and this fraud bars any cause of action involving the patent application or Patent 2,919,586 [Ex. 10] which eventually issued on the patent application (p. 390)

Furthermore, judgment for the defendant notwithstanding the verdict was proper and should be affirmed because as a matter of law the plaintiff has no protectible right under the United States Patent Laws, and there is no basis upon which to impose liability on the defendant, because a mere comparison of plaintiff's patented apparatus for supporting bearings with the devices of the prior art leads to the only reasonable conclusion of invalidity of plaintiff's patent. (p. 400)

4. *Excerpts From:*

**PETITION FOR REHEARING IN THE
CALIFORNIA SUPREME COURT.**

**RESTRAINT OF TRADE, THE POSSIBILITY
THAT AN APPLICANT FOR A PATENT
MAY CHANGE HIS CLAIMS DURING
PROSECUTION, REPUDIATION OF AN
AGREEMENT FOR FAILURE OF CON-
SIDERATION, AND THE PUBLIC POLICY
WHERE PATENTS ARE CONCERNED
WERE NOT CONSIDERED BY THIS
COURT IN APPLYING THE DOCTRINE
OF LICENSEE ESTOPPEL.**

(p. 10)

**A. THE DOCTRINE OF LICENSEE ESTOPPEL DOES
NOT APPLY WHERE THE LICENSE CONTAINS
A PROVISION IN RESTRAINT OF TRADE.**

The decision (p. 32) construes the license agreement [Ex. 8] to require that Lear must cease manufacturing the products of the license in order to terminate the agreement.

This constitutes a restraint of trade which is void and unenforceable under federal law, the common law, and

(p. 10)

California law. Business and Professions Code §16-600.

The doctrine of licensee estoppel does not apply where the license contains a provision in restraint of trade. Such a restraint is a violation of the law save only as it is within the protection of a lawfully granted patent. That is, *an absolutely valid patent is required, which satisfies the Constitutional standard required for patentability, not just a presumptively valid patent.*

In *Sola Electric Company v. Jefferson Electric Company*, 317 U.S. 173 (1942) the court considered a pat-

of consideration. This issue is raised by Lear's letters of September 10, 1957 [Ex. 36] and April 8, 1959 [Ex. 39]. This issue is also raised in the litigation proceedings. Failure of consideration is pleaded specifically [Clk. Tr. 1655].

In *Mudgett v. Thomas*, 55 Fed. 645 (S.D. Ohio 1893), the court reviewed the history of licensee estoppel and stated at pages 648 and 649:

"... when a licensee stands out from under the license, and claims nothing from it, with full knowledge by the licensor of his position, he would appear to be at as full liberty to contest the patent as any one ..."

'... It would be against public policy to extend the doctrine of estoppel beyond the strict letter
(p. 16)

of the rule, for in *Pope Manufacturing Co. v. Gormully*, 144 U. S. 234, 12 Sup. Ct. Rep. 632, Justice Brown says: 'It is as important to the public that competition be not repressed by a worthless patent, as that the patentee of a really valuable invention should be protected in his monopoly.'"

Thus, irrespective of whatever termination provisions are employed in a license agreement, if the licensee refuses to be bound by the agreement and does not operate under it, he may thereafter contest the validity of the patent in an action for breach of contract. Such is the case here.
(p. 17)

In *Crew v. Flanagan*, 65 N.W. 2d 878, 102 U.S.P.Q. 324 (Minn. Supreme Court 1954) the court considered the issue of failure of consideration and held that licensee estoppel does not apply to that issue when the

license is repudiated. The Court reviewed many authorities and stated:

“ . . . But the view now supported by the weight of authority in recent cases is that the licensee may dispute the validity of the patent under which he is licensed after he has repudiated the license, even though such patent has not been shown to be invalid in third-party proceedings.” (p. 18)

The license in the *Crew* case had no provision permitting termination and it was to continue for the term of the patent. Thus, the *Crew* license was not terminated in accordance with the provisions of the agreement. The licensee refused to be bound by the agreement and successfully defended on the basis of invalidity of the patent.

The decision in the present case conflicts directly with that of the *Crew* case.

The *Crew* case involved an exclusive license. The same conclusion was reached with respect to a non-exclusive license in *Viki Hosiery Corporation v. Margulies*, 164 F. Supp. 738 (E.D. Pa. 1958) (p. 19).

C. THERE IS NO ESTOPPEL WITH RESPECT TO CLAIMS THAT WERE INSERTED IN THE PATENT APPLICATION SEVERAL YEARS AFTER THE LICENSE AGREEMENT WAS CONSUMMATED.

The license agreement was consummated in 1955, additional matter was added to the application by an amendment filed on December 22, 1958, Lear served a notice of termination on April 8, 1959, and the claims in suit were inserted in the application by amendment which was filed on April 30, 1959. These claims were different from prior claims in that they contained the

express limitation that the respective elements of the apparatus had to have a mounting surface and a supporting surface and that the cooperation between the surfaces must permit the bearing-receiving elements to be initially adjustably shifted into oriented positions where the bearing-receiving means would be in alignment with each other.

The prosecution of the patent application was under the exclusive control of Adkins. Lear never saw the claims which issued until the patent became a public document in January, 1960.

Lear did not operate under the license agreement after these claims were inserted, Lear has derived no competitive advantage or monopoly rights under these claims, Lear has asserted over and over that these claims are invalid, Lear could never derive a benefit from this creation of new claims which took place some four years after the executory contract was consummated, which claims have been held invalid as a matter of law.

In *Westinghouse Electric & Manufacturing Company v. Formica Insulation Co.*, 266 U.S. 342 (1942) the (p. 20)

court considered an assignor's estoppel with reference to assignment of a patent application, as distinguished from an issued patent. The court observed that since the claims could be changed, it might be that the limits of the subsequent estoppel should be different than in case of a granted patent. However, the court did not find it necessary to decide this.

Estoppel with respect to a license is less stringent than estoppel with respect to an assignment. The subsequent estoppel, when a license agreement involving a patent application is involved, should not extend to new

claims, and particularly it should not extend to new claims that are first presented after the licensee ceased to operate under the agreement. There is no equitable reason for the estoppel to apply, and estoppel is an equitable defense. (p. 21)

A REQUIREMENT THAT LEAR MUST CEASE MANUFACTURING PRODUCTS OF THE LICENSE AGREEMENT IN ORDER TO TERMINATE IT IS CONTRARY TO THE RIGHTS OF THE PARTIES AND AGAINST PUBLIC POLICY.

This Court has construed the agreement to include an implied condition that Lear must cease manufacturing before it can exercise an otherwise unequivocal termination provision [§2(a)] which only requires ninety days' written notice. It is respectfully submitted that this implied condition is directly contrary to the rights of the parties, apart from the agreement, and improperly extends Adkins' patent monopoly in violation of public policy concerning patents and patent rights as established by the U.S. Supreme Court. (p. 55)

The subject matter of the license agreement is patentable invention. The consideration recited by the agreement is the grant of a license under the patentable claims [Ex. 8, §1(d), 2(a)]. Adkins so represented to Lear [Exs. U and A-85 for identification].

Thus, the subject matter of the license agreement is patent rights.

Many years ago, a patent license agreement could subject a licensee to substantially any qualification or provision that the licensee would accept. *Henry v. A. B. Dick Co.*, 224 U.S. 1 (1912).

ent license agreement having a price fixing provision which is a violation of the law unless it is saved by the license agreement.

The Court held the restriction a violation of the law save only as it is within the protection of a lawfully granted patent monopoly. The Court then held that licensee estoppel does not apply under such circumstances and that the validity of the patent could be contested.

In *Katzinger v. Chicago Metallic Mfg. Co.*, 329 U.S. 394 (1947), the court went even further and held that licensee estoppel does not apply where there is price fixing, even though there was a covenant in the license contract that the licensee would not contest validity of the patent.

Another case involving price fixing is *MacGregor v. Westinghouse Electric & Manufacturing Company*, 329 U.S. 402 (1947), where the court held that licensee estoppel is not applicable, stating:

" . . . If it be determined on remand that the patent is invalid, there is no question but that, as MacGregor contends, the price-fixing agreement violates the anti-trust laws." (p. 11)

In *Nachman Spring-Filled Corporation v. Kay Mfg. Co.*, 139 F. 2d 781 (2nd Cir. 1943), the defendant, to settle a prior suit, agreed to cease making and selling for thirteen years a product covered by plaintiff's patent. Defendant further agreed to acknowledge validity of the patent. Plaintiff brought an action for breach of the agreement and the defendant contested the validity of the patent. The court held that since the agreement imposed a restraint on trade in that it required the defendant to cease manufacturing products, the defendant was not estopped to contest the patent even though it had agreed not to contest it (p. 12)

B. LEAR CAN CONTEST THE VALIDITY OF ADKINS' PATENT BECAUSE LEAR REPUDIATED THE LICENSE FOR FAILURE OF CONSIDERATION.

The consideration recited in paragraph 2(a) of the license agreement is the grant of a license under the claims of Adkins' patent application which "are patentable or will be patentable by Adkins". (p. 14)

The decision (pp. 17-28) states that the agreement does not require *validly* patented claims (p. 24), and that the parties intended to license "any patent" which issued on the basis of Adkins' application.

Thus, the decision appears to rest upon a holding that validity or invalidity of the patent is immaterial because the parties contracted with reference to just "any patent" that might issue.

"It is the public interest which is dominant in the patent system."

Mercoïd Corp. v. Mid-Continent Invest. Co., 320 U.S. 661 (1944).

It is in the public interest to assure that only valid patents issue. The mere existence of a patent which is invalid may deter others from employing the invention of the patent, thereby resulting in an unlawful restraint of trade.

If the agreement here is interpreted to mean that the agreement might be based upon an invalid patent, it would enable Adkins or Adkins and Lear together to perpetrate a fraud on the public by obtaining an invalid patent. (p. 15)

However, the decision fails to consider the refusal of Lear to be bound by or operate under the agreement, and the repudiation of any liability because of failure

This is no longer true. The law favors free competition without restraints, and the rights granted by the patent laws are an exception to the usual rules of free competition.

The exceptions to the common law and statutory rules of free competition provided by the patent laws have been greatly reduced over the last half-century by a long series of decisions by the U.S. Supreme Court. (p. 59)

Today it is unlawful for a patent owner to attempt to extend the scope of the patent monopoly beyond the scope of the patent laws.

"A patent by its very nature is affected with a public interest. As recognized by the Constitution, it is a special privilege designed to serve the public purpose of promoting the 'Progress of Science and useful Arts.' At the same time, a patent is an exception to the general rule against monopolies and to the right to access to a free and open market. The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope. The facts of this case must accordingly be measured by both public and private standards of equity."

Precision Instrument Manufacturing Company v. Automotive Maintenance Machinery Company, 324 U.S. 806, 816 (1944).

"The grant of a patent is the grant of a statutory monopoly . . . the prerequisites to obtaining

a patent are strictly observed, and when the patent has issued the limitations on its exercise are equally strictly enforced . . . Once the patent issues it is strictly construed . . . it cannot be used to secure any monopoly beyond that contained in the patent . . .”

• *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 229-230 (1964). (p. 60)

“But patents are in the federal domain; and ‘whatever the legal device employed’ (*Scott Paper Co. v. Marcalus Co.*, *supra*, 362 US at 256, 90 L ed at 57) a projection of the patent monopoly after the patent expires is not enforceable.”

Brulotte v. Thys Co., 379 U.S. 29, 13 L. Ed. 2d 99 (1964).

Use of an agreement to project patent rights beyond those provided by law constitutes misuse of the patent and renders both the agreement and the patent unenforceable. See “Patent Law” by Arthur M. Smith and Robert L. Harmon (1964), p. 1198.

An agreement (either express or implied) which requires Lear to cease manufacturing the devices of Adkins’ patent application or patent in order to terminate the license agreement projects the patent rights beyond those provided by law in violation of the above authorities.

The license agreement was consummated while Adkins’ patent application was pending in the Patent Office, and Lear’s notice of termination was served in 1959 while the application was still pending. Adkins had no property rights at that time, either at common law or by state law. *Summerhays v. Scheu*, 10 Cal. App. 2d 574, 576 (1935). (p. 61)

An agreement to cease manufacturing products asserted to be covered by a patent in order to terminate the agreement deprives the licensee of the right to contest the patent forever. This requires the licensee to agree in advance that it will either cease manufacturing the devices (in which case there would be no reason or basis for contesting the patent because there would be no justiciable controversy) or that it will operate under the license agreement and hence be estopped to contest the patent. Such a requirement by agreement constitutes an unlawful extension of the patent rights in violation of the above authorities. This is particularly true where the agreement is based upon claims of a patent application which were changed substantially during the pendency of the patent application in the Patent Office.

Whatever the legal device employed, express agreement or implied condition, if it runs counter to the policy and purpose of the patent laws, it is prohibited. *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 256 (1945).

The use of a condition implied under state law is also condemned by *Sears, Roebuck v. Stiffel Co.*, *supra*, where the Court stated at page 231:

"Just as a State cannot encroach upon the federal patent laws directly, it cannot, under some other law, such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of the federal patent laws." (p. 62)